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DRUG STORE NEWS

Vol. 8/No. 24 **Serving chains, wholesalers and high-volume independents for 57 years.** Published by Lebhar-Friedman Inc. November 10, 1986

Pay 'n Save's Nathanson to walk fiscal tightrope

Can 'strong leader' halt chain's losing streak?

By Lou Karney

SEATTLE — When Gerald Nathanson replaced Allen Culver as vice-chairman and ceo of Pay 'n Save drug stores, it signaled the chain's continued commitment to the Zimmerman merchandising strategy.

Nathanson's 22-year career has "general merchandise" stamped in boldface—and that's the core of the Pay 'n Save marketing plan.

The question buzzing the trade is: What changes will Nathanson make in the Zimmerman concept? "It's too early to talk about," Nathanson told *Drug Store News*. "I've only been here a week."

The Zimmerman strategy has already undergone several alterations. Originally, the prototype for retrofitted Pay 'n Save drug stores consisted of up to 50 6x3 promo tables. They were located front-and-center, at the start of the horseshoe-shaped race track layout.

Strategy adjusted

Merchandise on the tables are closeouts, special buys, imports and overruns, which are being sold at 30%-70% below what other retailers charge and still manage to achieve a gross profit of 50%.

Several months ago, the aisles were widened from 11 to 14 ft., and the number of tables reduced to 25. But the crux of the move is that

Gerald Nathanson

the tables are now placed alongside the race track, thus freeing space for 192 ft. of gondola, which was used to expand seasonal goods and greeting cards.

In October, William Zimmerman, Pay 'n Save chair-

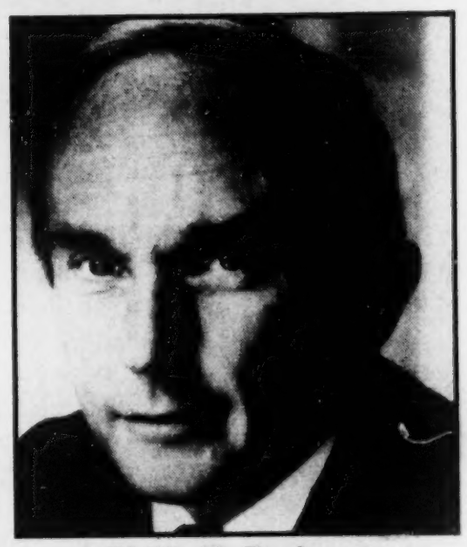
See **Pay 'n Save,** *page 87*

Hook-SupeRx LBO takes shape under new ceo

By Dave Vaczek

CINCINNATI — Kroger said it will sell 710 SupeRx and Hook drug stores to a private group led by Philip E. Beekman, a former president of Joseph E. Seagram & Sons, who will head the new company as president and ceo. The new firm is tentatively called Hook SupeRx Inc.

The leveraged buyout, which sources said was being developed the past month, doesn't include the two top managers of the drug division: president Gerald Wolken and executive vp-operations J. Douglas Reeves. They won't be part of the manager-investor group who will buy the stores with Beekman and other unnamed investors. Kroger will hold up to a 40% stake in



Philip E. Beekman

the new company, sources said.

The new company will be made up of drug stores clustered primarily in Ohio, Indiana, Illinois, Kentucky, Tennessee, West Virginia and Virginia.

Sale of remainder

The remaining 180 units in the 890-store division, as reported will be put on the market: 39 Phoenix units, 106 in Florida and 35 in Alabama and Georgia. Lehman Brothers will arrange those sales.

See related stories, p. 3

Analysts estimate Kroger will collect $300 million to $500 million on the sale of all its drug stores, which it announced this year as part of a strategy to achieve long-term profitability with other retail formats.

"The No. 1 priority right now is to get this transaction

See **Hook,** *page 88*

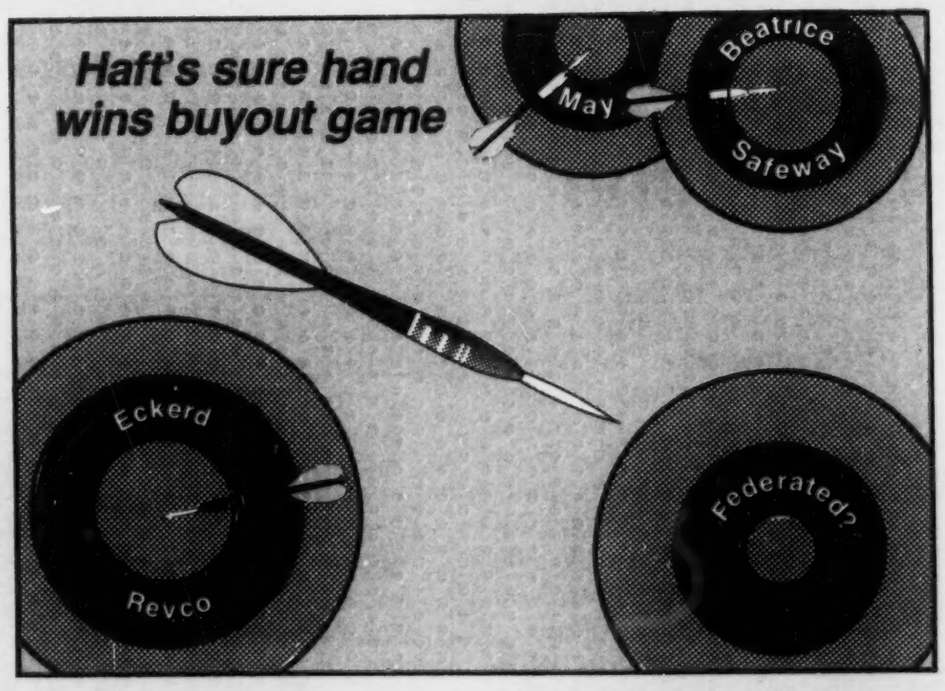
Dart Group flexes acquisition muscles

Sells its option back to Safeway for $59M

LANDOVER, Md. — The Dart Group is tramping down the acquisition trail with renewed vigor, after selling back to Safeway for $59 million an option to buy a part of the reorganized Safeway stores. Dart also said it isn't interested in buying Safeway divisions it was assessing.

"It looks like they're swinging for the fences. They want to have the image of being in the big leagues in mergers and acquisitions," said Jerome Kaplan, a Value Line analyst.

Dart Group agreed to sell its option for 20% of the new Safeway company being formed by Kohlberg Kravis Roberts investment firm, and also passed up the chance to buy certain divisions. The proceeds and savings will fortify a war chest targeted for new buyout prospects.



The $59 million proceeds add to the $80 million Dart reportedly cleared when it sold its 5.9% Safeway stake to KK&R.

By selling its Safeway interest, Dart owners Herbert and

See **Safeway,** *page 88*

Wall St. speculation focuses on Federated

NEW YORK — Investors' speculation that the Dart Group has returned to the buyout arena prompted a $3.75 per share jump in Federated Department Stores stock, analysts said.

Wall Street sources said conjecture that Cincinnati-based Federated might be Dart's next victim accounted for a price rise to $94 on Oct. 23 (at presstime).

Department stores are attractive buyout candidates for

See **Federated,** *page 88*

2 groups eye Gray Drug Fair buy

CLEVELAND — At least two groups—one headed by Al Towle and another made up of Gray Drug Fair management—have expressed interest in acquiring the 420-store drug chain from Sherwin-Williams through a leveraged buyout, according to industry sources.

Sherwin-Williams, which has reportedly received no acceptable outside offers, has conceded that it would now consider an LBO by an inside management group. The proposed sale is being handled by Goldman Sachs.

The diversified paint manufacturer and retailer announced in July that it had placed its drug chain on the auction block in order to "concentrate on our coatings and coatings-related business."

Sherwin-Williams, which acquired the chain in 1981, has experienced five years of up and down results. The most recent performance, however, points to an upward trend.

Al Towle, 48, is the former president and general manager of Gray Drug Fair who was dismissed three years ago, reportedly because his progress in turning around the troubled drug chain was not fast enough to suit Sherwin-Williams.

His departure began a revolving door management cycle in the top executive suite. Other presidents who have since come and gone include Al Culver and Jim Mastrian. Carl Bellini, the current president and reported leader of the LBO group, has also occupied the president's chair during several interim periods.

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Revco sheds subsidiary to help fund LBO

But pact with PFI remains

TWINSBURG, Ohio — Revco will raise about $16 million to help fund its pending leveraged buyout by selling its subsidiary that makes generic drugs, vitamins and packaging.

The chain has contracted to sell Private Formulations to PharmaControl Inc., a publicly owned drug manufacturer headquartered in Englewood Cliffs, N.J., a spokesman for PharmaControl told *Drug Store News*.

PharmaControl managers have already taken an active operating role in the company, although the sale is contingent upon financing. The company expects to pay a $1 million premium above a $15 million auditors' valuation of assets, which include a 215,000-sq.-ft. warehouse and manufacturing equipment, the spokesman said.

'Take-or-pay' pact

The pact includes a five-year "take-or-pay" requirement, under which Revco must continue to buy products from Private Formulations at near its current purchase level, currently about 50% of the PFI's $24 million in annual sales. PFI manufactures and distributes about 1,200 products, including pain relievers, antacid and allergy remedies, cough suppressants and laxatives.

Revco management is expected to eye the sale of its nonretailing subsidiaries as a way to raise cash to help service LBO debt. And by selling nonretail businesses, Revco will focus on the core drug store operations—an effort that began earlier this year when Revco spun off its General Computer Corp. into a new public company, but retained a minority interest.

Vertical integration

Revco subsidiaries have supported a vertical integration strategy. They make store fixtures, generic drugs, construction equipment and nursing home prescription services. They have contributed about 5% of total revenues. Revco has owned PFI since the early 1970's.

The buy will boost PharmaControl's annual revenues from $3 million to over $25 million. Besides buying the business of Private Formulations, PharmaControl will use the manufacturing and distribution capacity to develop new drug products. The Edison plant was reportedly underutilized, and its facilities can support about $70 million in sales.

"It's a good buy. But it's not a steal. There's a lot of surplus manufacturing capacity in the industry right now," said a source close to the sale.

In an unrelated matter, Revco said it has settled more than 75% of the cases involving infants treated with E-Ferol, the vitamin product made by its Carter-Glogau Laboratories subsidiary. It said it expects a "substantial portion" of the costs of the settlements will be recoverable from state insurance and from the chain's claim against two involved insurance carriers, who have been placed in bankruptcy liquidation.

Revco subsidiaries

Carter-Glogau Laboratories Inc.	Manufactures sterile injectable medicaments
Crown Store Equipment	Manufactures and installs metal and wood store fixtures
Insta-Care Pharmacy Services	Provides pharmacy services to nursing homes
Revco Optical Centers	Eyeglass and contact lens stores
Stanton Corp.	Leases and sells polygraph and written honesty tests
Waco Equipment Corp.	Leases and sells construction equipment, scaffolding and trailers
Barre National	Manufactures liquid generic products
Odd Lot Trading Co.	Sells closeout retail merchandise
Private Formulations	Makes generic drugs, vitamins and packaging

Revco's subsidiaries are prospects to be sold to raise cash to support management's leveraged buyout, Wall Street and industry sources said.

Source: *Drug Store News* research

NEWS IN BRIEF

Vons/Allied merger kaput

EL MONTE, Calif. — The proposed merger of Vons Grocery and Allied Supermarkets of Detroit—valued at $660 million—has been called off. The reason, according to David Page, chairman and ceo of Allied, was difficulty in resolving a number of unspecified issues.

As a result of the breakoff, Allied was the loser on Rx-drug operations. Vons, operating 40 pharmacies in its combos, is a major marketing force in southern California, while Allied's Rx performance in the Midwest is weak. Allied closed five of its six freestanding Family Drug Stores (10,000-20,000 sq. ft.) a year ago because they were not profitable.

Allied had hoped that "shared ideas"—that is, borrowing from Vons' extensive know how—would beef up Allied's performance on the drug side.

Perry honors pharmacists

PONTIAC, Mich. — Perry Drug has named six pharmacists to receive its first Pharmacist of the Year award, recognizing their professional work and involvement with patients and the community.

Each winner received an engraved plaque and $500 during presentations at Perry's Christmas vendors' show in October.

The chain took out a full-page ad in the Detroit *Free Press* congratulating the winners, whose awards coincided with Michigan Pharmacy Week.

The recipients are: Phil Connor, 38, Pontiac, Mich.; George Didur, 27, Pontiac; Joann Frederick, 35, Rochester, Mich.; Bob Jasinski, 48, Rochester Hills, Mich.; Thaddeus Setla, 37, Ortonville, Mich; and Myron Sonkin, 35, Lisle, Ill.

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Vol. 8, No. 24 November 10, 1986

Walgreens expands DC in Arizona

FLAGSTAFF, Ariz. — Walgreens has begun to build a 125,000-sq.-ft. addition to its distribution center here—its western-most in the United States—to support planned growth of 30 units in the West through 1987, the chain said.

The $10 million expansion will enlarge the DC to 325,000 sq. ft. and will be in operation by June, the company said.

Walgreens said in August it plans to add 30 stores in the West, particularly in Phoenix and San Francisco. The DC now supplies merchandise to about 200 stores in Arizona, California, Colorado, New Mexico and parts of Texas. It supplies 80% of store merchandise, with a one-day delivery reach to all markets.

Parts of the DC upgrade are changes in the conveyor system and installation of "walk and pick" product handling systems that allow workers to fill portions of seven orders at once.

Merchandise in the new area will be stacked on 28-ft.-high racks, substantially increasing storage capacity.

Northwestern continues repositioning efforts

AUBURN, Wash. — Northwestern Drug is well into a multipronged program to reposition itself after 2½ years of laboring to keep market share under Pay 'n Save ownership.

Efforts to revitalize the regional wholesaler include acquisitions, formation of a new buying group, faster prescription drug delivery services and a management restructure.

Since Seattle Standard retained ownership control, Northwestern has been moving to get past such problems as: some pharmaceutical manufacturers having refused to ship to Northwestern because it was retailer-owned (since settled by lawsuit), and some retailers such as Bartell Drug who viewed Northwestern as a profit feeder for Pay 'n Save and didn't want to support that business.

Acquired VSC

The first acquisition it made earlier this year was VSC Corp., a specialty distributor of paper products and supplies to hospitals, nursing homes and DME retailers.

"VSC provides us with a new level of diversification," said Ed Croke, Northwestern's senior vp. "VSC is a separate entity with its own customer base. It also has its own discrete marketing staff, reporting to Paul Stanfill, former president of VSC."

In addition, Northwestern bought Velocity Hospital Group Oct. 1 to "give us more direct control of the hospital business," Croke said. Formerly, Velocity was a separate company with a long-term contract with Northwestern to supply Northwestern's more than 100 hospital accounts—mainly in the Pacific Northwest.

On the buying front, Northwestern formed VeloGroup, a buying group for generics, last April. "The group has better prices than Northwestern," said Croke, "in that it has achieved cost savings in excess of 20% for our more than 400 retail partners [Northwestern's designation for members]. We are awarding bids on an item-by-item basis, rather than across the breadth of the line."

Northwestern has also sped up Rx-drug delivery service. It used to take 24-30 hours to deliver to distant points such as eastern Washington and most of Oregon. Now it's 16-18 hours.

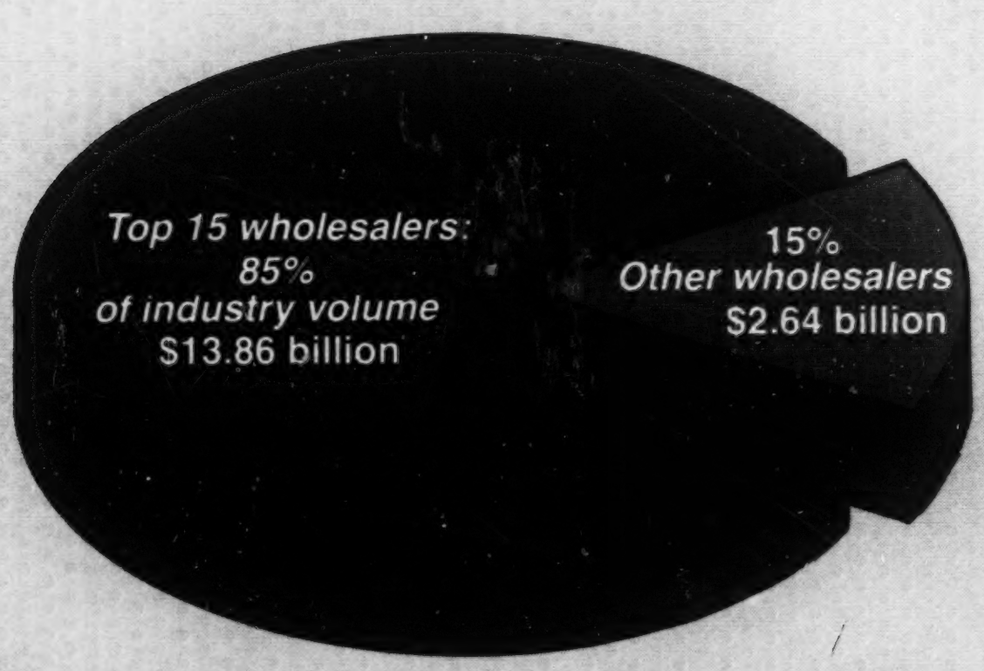
Bloom becomes chairman

The restructuring places Steve Bloom, who has purchased a substantial ownership interest in Northwestern, as chairman. Parent Seattle Standard retains ownership control. Croke refused to give the purchase price or the percentage investment. Nor would Croke indicate whether the money will be channeled into Northwestern's operation.

Bloom, who has a background in distribution of candy, tobacco and H&BA, was former vice-chairman of Core-Mark International, a U.S. and Canadian distributor with sales of $2.3 billion annually. Bloom's strengths are in finance, management and sales. He also has a keen insight into people and a high energy level, a Northwestern executive said.

DRUG STORE NEWS®

The 1986 Annual Report of the Wholesale Drug Industry



Source: *Drug Store News* analysis

Wholesale giants shaping industry

By Liz Parks

The year 1985 was disappointing for drug wholesalers, and 1986 is not shaping up much better.

But as this industry continues evolving into an oligarchy, the last half of this decade could usher in an era of industry stability and profitability.

Net profit margins, which were almost at the 2% level in 1982, dropped to 1.47% in 1985, down from 1.78% in 1984. Gross profit margins, which were at 11% in 1982, dropped to 8.86% in 1985, down from 9.74% in 1984.

Wall Street analysts and executives in the major drug wholesaling companies don't see this trend abating, possibly even in 1987, but some see indications that things are getting better. A few speculate that in two or three years, there will be just four or five companies controlling 90% of total sales. At that point, "the fierce competitive phase of the industry will be over," and profits will stabilize.

Although these sources see the profit erosion continuing for "a few more years," margins will eventually rebound as the five or six major companies in the industry complete their acquisition campaigns, digest their mergers and consolidate their strength.

As the Big Five achieve their individual optimum market share gains, these sources say, they will begin to operate in what FoxMeyer chairman Bill Tauscher calls "a more realistic manner." That means they will eliminate price and bidding wars, concentrate on building margins and continue to use their growing economies of scale to find new operating efficiencies that will trickle down to the bottom line.

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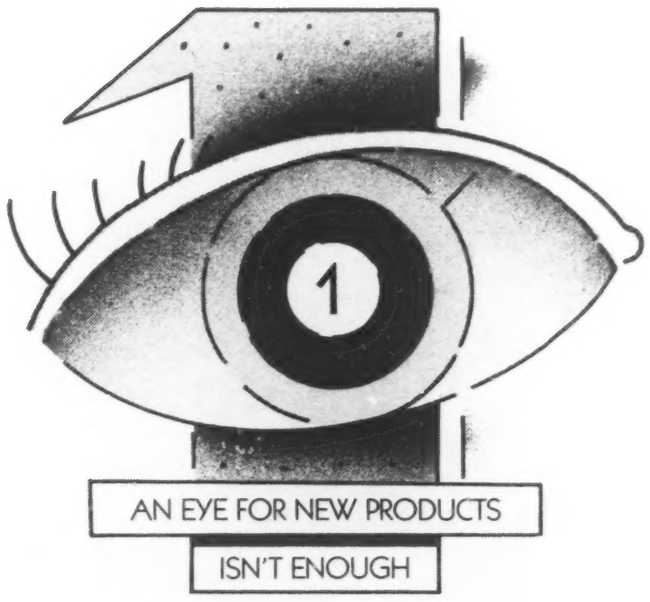

'86 ANNUAL WHOLESALER REPORT

Dwindling inflation blamed

Changes in customer mix

- In 1985, wholesale sales to independent drug stores continued their long-term decline.
- At the same time, drug wholesaler sales to less traditional trade areas like chain drug stores and hospitals increased to an all-time high.
- In 1978, drug wholesalers did 62.4% of their overall business with independents and just 20.6% with chains and 10.9% with hospitals.
- In 1985, however, the NWDA operating survey revealed that just 50% of a drug wholesaler's overall sales were with independent drug store retailers, down 3.44 percentage points from 1984.
- At the same time, drug wholesalers were now doing 23.16% of their total sales with chain drug stores direct, compared with just 19.66% in 1984. In addition, drug wholesalers in 1985 were doing 19.47% of their overall business with hospitals, compared with 18.61% in 1984.

Continued from page 13

In analyzing what the 1985 profitability slump means for the industry in terms of its long-term stability, most sources cite a variety of factors that accounted for the decline in 1985.

These include the waning of inflation; the problems for the major companies of "digesting" the 30 or so acquisitions that occurred during 1984 and 1985; the expansion of retail buying groups, which forced many wholesalers into more competitive pricing structures; the withdrawal from secondary suppliers as alternative sources for pharmaceutical supplies; the cutthroat competition for an increased share of the low-margin, but high-tonnage hospital business; and the manufacturer practice of offering differential prices, which wholesalers say still exists and still creates an "unfair competitive environment."

Although no wholesaler interviewed by *Drug Store News* ventured to say all these elements would disappear over the next year or so, most did say there are indications that relief is in the wind.

'Some manufacturers have implemented policies that would preclude favorable pricing. I hope that this is a trend.'
—Bill Bindley
president,
Bindley Western

Positive factors

Many executives at the bigger companies like Alco, Amfac, Bergen Brunswig, Bindley Western, FoxMeyer, Harris and McKesson point out that they are continuing to centralize and consolidate their operations so that more functions can be performed under one roof and duplications can be eliminated.

Even though most executives say it is getting harder to initiate savings through cost reductions, most add that they can continue to count on technology to improve the bottom line for at least "a little bit longer."

Seth Harris at Harris Wholesalers and Mel Whitmire at Amfac said they are investing in systems that will reduce costs and improve efficiencies.

Amfac has just finished installing a new computer system in all its branches to handle electronic transmissions of data, while Harris over the coming year will be installing a centralized data processing system that will let management run its nine distribution centers all on the same computerized accounting system.

Both companies anticipate enormous productivity gains.

At the same time that wholesalers continue to devise

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for industry blahs

ways to improve profitability through cost efficiencies, sources like John McNamara and John Kennedy, exec vp and chairman of Alco Standard, and Bill Bindley, president of Bindley Western, also say they believe that the severe price differentials are declining somewhat in intensity and numbers. The differentials contributed to illegal diversion and to the formation of retail buying groups as protection against buying inequities.

As a result of the decline, these sources speculate that at some point wholesalers will be able to operate more efficiently and without having to compete "just on the basis of price."

"Some manufacturers have implemented policies that would preclude favorable pricing. I hope that this is a trend," Bindley said. "I wouldn't call it a trend yet myself, but I would call it steps in the right direction."

Other wholesalers are encouraged by the Justice Department's latest opinion statement on diversion, indicating that the practice of buying pharmaceuticals from secondary sources is not illegal per se.

The industry's fear of possible illegalities in dealing with secondary sources had caused many wholesalers to stop buying diverted goods. Many sources said this practice had hurt the bottom line.

"There is no doubt that we did hurt our profit margins when we stopped buying from secondary sources about a year ago," said Bergen's Jack Fay.

"There have been a number of wholesalers who have eliminated secondary source buying because of problems of diversion, and that has had a negative impact on margins," said Amfac's Whitmire. "The result is that profits are not as good as they were in prior years."

Now that Justice has issued a clarifying statement on the status of secondary source suppliers, most wholesalers anticipate a shift back to this avenue of supply.

Diminished inflation

For most wholesalers and analysts who follow the wholesale industry, the one problem that does not seem likely to disappear soon is dwindling inflation.

Tauscher at FoxMeyer notes that pharmaceutical inflation, which had been running at an 8%-10% rate for most of 1985 and early 1986, has declined in the last six months. He thinks the rate will continue to drop.

Whitmire describes the lack of inflation as "the major issue facing the industry today."

"In the past," Whitmire said, "inflation has been the largest contributor to profits. We haven't had it in 1985 or 1986, and personally, I don't think that will change that much next year."

At McKesson Drug, president Joe Polastri agrees. "When you don't have high inflation, you don't have a cushion to increase your profitability. You're carrying a large inventory, and when prices go up, that tends to pick margins up. But when there is no inflation, that tends to reduce margins."

"If you cut inflation out of this business," Tauscher said, "half of your profitability also goes."

At Drexel Burnham Lambert in New York, industry analyst Joel Liffman is not predicting any immediate solutions to the inflation problem. Liffman thinks the industry will have to face diminished inflation, hovering around a 5%-6% rate, for at least the next couple of years.

That will mean, of course, slower revenue growth for the industry and a proportionately slower growth in profits.

But although Liffman calls diminished inflation "the industry's most critical issue," he predicts the industry will be able to offset most of its negative effects by evolving, through continued consolidation, beyond the current and familiar competitive phase that has resulted in bidding wars and margin erosion.

'There have been a number of wholesalers who have eliminated secondary source buying because of problems of diversion, and that has had a negative impact on margins.'

—Mel Whitmire
president,
Amfac

Acquisions

In the view of most industry sources, the consolidation that the industry has been undergoing for the past few years is in itself a strong antidote to diminishing inflation.

In the last two years, there have been at least 17 acquisitions of wholesale drug companies by members of the top 10 companies.

Fifteen of the 17 major 1985-1986 acquisitions were made by the top four wholesalers.

The result is that, by most industry estimates, the top four companies by year-end 1986 will account for about

Continued on page 16

Highest volume drug wholesalers

Company	F.Y. ending	Est. drug wholesale sales* (in millions)	1-year change
1. McKesson Drug (San Francisco)	3/31/87	$4,500	10%
2. Bergen Brunswig (Los Angeles)	8/31/86	2,400	25
3. Alco Health Services (Valley Forge, Pa.)	9/30/86	1,300	35
4. FoxMeyer (Denver)	3/31/87	1,300	60
5. Harris Wholesalers (Solon, Ohio)	4/30/87	941	22
6. Bindley Western (Indianapolis)	12/31/86	705	11
7. Amfac Drug Supply (Burlingame, Calif.)	12/31/86	543	12
8. Cardinal Drug Wholesale (Dublin, Ohio)	3/31/87	360	83
9. Ketchum Distributors (Newington, Conn.)	4/30/87	335	10
10. Humiston-Keeling (Chicago)	5/1/87	$318	10%
11. Durr Fillauer (Montgomery, Ala.)	12/31/86	266	25
12. Owens & Minor (Montgomery, Ala.)	12/31/86	217	24
13. Louis Zahn Drug Co. (Melrose Park, Ill.)	12/31/86	190	15
14. Northwestern Drug (Auburn, Wash.)	1/31/87	187	10
15. Drug Guild Distributors (Secaucus, N.J.)	7/31/86	150	12
16. Twin City Wholesalers (Minneapolis)	4/30/87	150	27
	Total	$13,862	

*Excludes sales of hospital surgical supplies, mass merchandise services, etc.

Source: *Drug Store News* survey and company annual reports

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'86 ANNUAL WHOLESALER REPORT

Leaders to garner 75% of sales

The bigger wholesalers like McKesson and Bergen Brunswig are consolidating their distribution centers to handle the customer base more economically.

Continued from page 15

60% of total drug wholesaling sales, while the top 10 will account for about 75%.

As most analysts and wholesalers point out, consolidation will foster economies of scale and higher profits.

Many smaller and regional wholesalers say the high-volume wholesalers already have the edge in systems that make them more efficient and are therefore more capable of providing value-added services to their customers.

In turn, the success of high-volume wholesalers—their ability to engage in drawn-out pricing wars or to cut margins to the bone to win bids for hospital contracts and other low-margin, high-volume business—is forcing many small and regional wholesalers to consider selling out.

In California, Mary L. Yost, who follows the wholesale drug industry for San Francisco-based Baldwin Capital Partners, predicts that in five years, the top six wholesalers—McKesson, Bergen, FoxMeyer, Alco, Amfac and Harris—will account for approximately 90% of all industry sales.

'In five years, we'll probably be a $20 billion industry, and I can imagine that $17 billion a year in sales or more could be done by just the top five.'

—Laurie DuBow
president,
Lawrence Pharmaceuticals

Wholesalers like Alco's McNamara think her prediction is too extreme and that the top five or six will probably level off to between 75% and 80% of all sales. FoxMeyer's Tauscher, on the other hand, agrees with the prediction. He thinks it will happen sooner, perhaps within "two to three years."

"It could happen," agrees Laurie DuBow, president of Lawrence Pharmaceuticals, which was itself acquired by FoxMeyer earlier this year.

"In five years, we'll probably be a $20 billion industry, and I can imagine that $17 billion a year in sales or more could be done by just the top five," said DuBow.

Most wholesalers are reluctant to speculate that the approximately 85 companies still privately held may not have muchof a future left. Most prefer to agree with DuBow, who argues that there will always be a place for strong regional and local wholesalers who can provide high service levels and courteous treatment to customers.

But these same sources also acknowledge that, excluding Harris, there are only a handful of companies left that are

Continued on page 18

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'86 ANNUAL WHOLESALER REPORT

Drug wholesaler customer sales mix

Customers	1978	1982	1983	1984	1985
Independent drug stores	62.41%	56.10%	54.51%	53.45%	50.01%
Chain drug stores direct	20.61	22.30	20.83	19.66	23.16
Hospitals	10.91	15.64	17.43	18.61	19.47
Chain warehouses	3.77	3.41	4.22	4.74	4.16
Mass merchandisers/ food stores	1.50	1.55	2.03	2.26	1.96
Clinics, nursing homes, etc.	0.82	1.00	0.98	1.28	1.24

Source: NWDA 1985 Operating Survey

Drug wholesalers: five-year sales growth
(In billions)

	1981	1982	1983	1984	1985	1986 est.*
Dollar sales	$8.60	$10.20	$11.90	$12.52	$14.32	$16.5
% change vs. prior yr. (current dollars)	+12.4%	+18.6%	+16.70%	+12.80%	+14.80%	15%
% change adjusted for product price changes/ inflation (constant dollars)	n.a.	n.a.	+ 9.72	+ 4.84	+ 8.65	—

*Drexel Burnham Lambert
Source: NWDA 1985 Operating Survey

Wholesale drug industry stubs financial toes

It wasn't the best of years, financially speaking, for the drug wholesaling industry.

Although 1985 sales in current dollars were up nearly 15% to $14.8 billion, overall profitability, as measured by such key indicators as net profit margins and return on total assets, dropped significantly.

According to the National Wholesale Druggists' Association's (NWDA) 1985 Operating Survey, on a composite average basis, the aftertax net profits to net worth ratio fell by a fifth to 13.07%; and the aftertax net to sales ratio was down 17% to 1.47%.

What happened to cause the decline? NWDA says noninflation and lower interest rates reduced the industry's need to engage in heavy financial leveraging. Moreover, wholesalers were unable to cut "operating expenses that could offset the continuing decline in gross profit margins."

"In the past," NWDA financial analysts point out, "the wholesale drug industry has been able to compensate for its declining net profit margins by increasing asset turns." But the turnover rate dropped 6% to 3.88 turns in 1985.

More serious problem

However, the more serious problem for the industry is that return on total assets in 1985 suffered a decline, deteriorating to 6.05% in 1985 from 7.30% in 1984. NWDA said this was the industry's lowest performance in this measure since 1979. The decline was caused by drops in both net profit margins and total asset turnover.

At the same time, the industry's average collection period increased slightly, from 26.7 days in 1984 to 27.1 days in 1985. Similarly, the average days' sales in inventory increased slightly from 50.0 days to 50.7 days.

Strong in comparison

NWDA points out that even though the industry's profitability performance this year was disappointing compared with what the industry has achieved in the past five years, it is still a relatively strong performance.

According to NWDA, compared to other wholesale distribution industries, a 13.1% return on net worth (RONW) is an "excellent performance." NWDA said the 1985 composite average for drug wholesalers is in the "upper quartile of all U.S. wholesale firms." NWDA also said that most broad surveys of RONW among U.S. firms showed a decline during 1985.

Sales gains for the industry were also strong. Growth in constant dollars was up 8.65% in 1985, compared to just a 4.8% increase in 1984.

Much of the sales gain can be attributed to the industry's expansion into new markets, both in terms of customer trade and product mix.

But as the NWDA points out, this strategy, while it added more dollars to sales and net profits, also resulted in the reductions in gross margins. That contributed in turn to the reductions in the per cent of net profit to sales, the return on total assets and the return on net worth.

NWDA conclusion

In summarizing its findings, the NWDA concluded that from this point on it is "unlikely that the industry can depend on further improvements in asset management to offset declines in net profit margins."

However, if the industry is to be able to maintain reasonable profitability levels, the NWDA acknowledged that "net profit margins will have to be stabilized" somehow.

But NWDA also conceded that at a time when many companies are struggling to defend and increase their market share as well as to enter and dominate emerging markets, stabilizing margins is going to be "difficult."

Drug wholesale industry profitability declined in 1985
(FIFO results, based on compositive averages)

Indicators	1982	1983	1984	1985
Return on net worth	18.10%	16.50%	16.40%	13.10%
Return on total assets	7.66	7.17	7.30	6.05
Net profit margin	1.95	1.75	1.78	1.47
Total asset turnover	3.94	4.11	4.13	3.88
Gross profit margins	11.00	10.16	9.74	8.86

Source: NWDA 1985 Operating Survey

Drug wholesalers: product sales mix

Product line	1978	1982	1983	1984	1985
Pharmaceuticals	62.79%	65.34%	68.16%	71.73%	75.75%
Proprietary	17.93	15.53	14.94	13.15	12.50
Toiletry	10.04	9.51	9.14	8.42	5.92
Sundry	7.91	7.89	6.26	4.96	3.75
*DME/HHC	—	—	—	—	0.57
Other	1.33	1.73	1.50	1.76	1.52

*Prior to 1985, sales of durable medical equipment and home health care items were not tracked separately.
Source: NWDA 1985 Operating Survey

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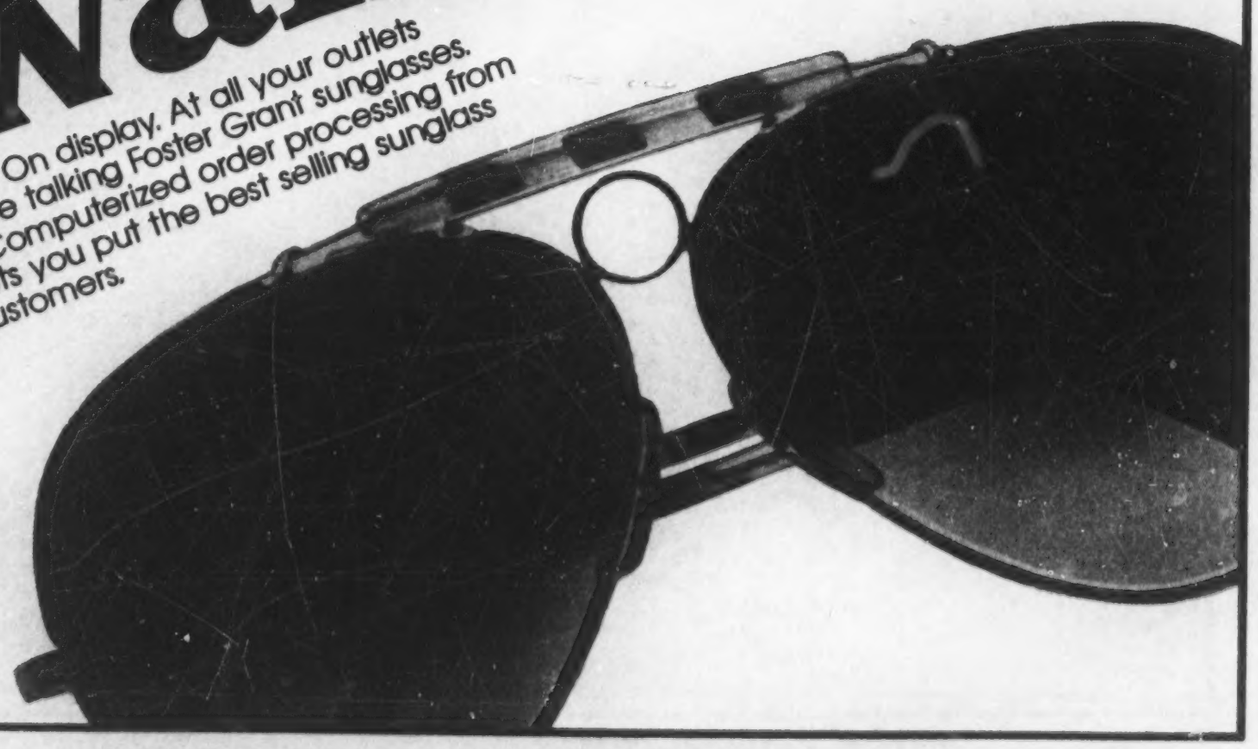

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'86 ANNUAL WHOLESALER REPORT

No fast relief for 'digestion' ills

Major drug wholesale acquisitions 1985-86

Company	Acquisition	Est. sales of acquired company (in millions)	Date of acquisition
McKesson	Johnson Drug (Tampa, Fla.)	$110	1 Q '85
	Spectro Industries (Jenkintown, Pa.)	$450	2 Q '85
	S-P Drug (Brooklyn, N.Y.)	$165	3 Q '85
Bergen Brunswig	Davis Companies (Denver, Colo.)	$110	2 Q '85
	Synergex Corp. (Fresno, Calif.)	$330	3 Q '85
	Berry Wholesalers (Antioch, Tenn.)	$ 50	1 Q '86
	Los Angeles Drug (Rosemead, Calif.)	$160	2 Q '86
	Southwestern Drug (Dallas, Tex.)	$150	2 Q '86
FoxMeyer (Merged with National Intergroup 1Q '86)	McPike (Kansas City)	$209	2 Q '85
	Ben Franklin	$410	1 Q '86
	Lawrence Pharmaceuticals (Jacksonville, Fla.)	$200	3 Q '86
Alco Health Services	Valdosta Drug (Valdosta, Ga.)	$ 22	4 Q '85
	Meyers & Co. (Tiffin, Ohio)	$100	4 Q '86
	L. S. DuBois Son & Co. (Paducah, Ky.)	$100	3 Q '86
	Pennington Drug (Joplin, Mo.)	$ 17	3 Q '86
	Mississippi Drug (Jackson, Miss.)	$ 49	4 Q '86
Cardinal Distributors	John L. Thompson Sons & Co. (Troy, N.Y.)	$ 20	1 Q '86
	James W. Daly (Lynfield, Mass.)	$140	2 Q '86

Source: *Drug Store News* survey

Continued from page 16

doing over $50 million a year in sales and only two or three like Humiston-Keeling and Zahn doing several hundred million.

Zahn, in fact, may be the last privately held wholesaler generating close to $200 million from a single distribution center.

Sooner or later, say most sources, these remaining small companies will sell out. Only a handful will be left to serve a geographic region or a market segment where a niche is still available.

Digestion problems

In the meantime, the "digestion problems" that acquiring companies inevitably experience are taking their toll on industry profitability.

At Bergen Brunswig, management says the main reason earnings declined in 1986 (Bergen's first decline and first quarterly loss in eight years) was the difficulty of digesting approximately one billion in sales that Bergen picked up through acquisitions over the past two years.

Inflation was part of the problem, said exec vp Jack Fay, but Bergen's slowdown

'In a competitive market, you take the opportunity to acquire market share where and when it presents itself. Then these acquisitions take a while to sort out.'

—Jack Fay
exec vp,
Bergen Brunswig

came primarily because the company "moved faster than we planned in acquiring new companies." Fay said Bergen is currently experiencing heavy debt and excess facilities, but "the basic problem we have is one of digestion."

"In the past two years, we proceeded at a much faster pace than we had planned, and that's because the industry is starting to get to the end in terms of eligible companies.

"In a competitive market, you take the opportunity to acquire market share where and when it presents itself. Then these acquisitions take a while to sort out."

"Bergen has to consolidate its new acquisitions into its existing facilities," said Drexel's Liffman. "There's an opportunity for them to realize substantial savings and economies as they accomplish that. The same is true for most of the top volume wholesalers, including FoxMeyer, Alco and McKesson."

Future outlook

Analysts Liffman and Yost as well as some of the chief executives of high-volume companies believe the progression into an oligarchy will gradually stabilize profitability.

"Usually with an oligarchy," said Tauscher, "you

Continued on page 19

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'86 ANNUAL WHOLESALER REPORT

How far can efficiency go?

Continued from page 18

don't have price wars unless you have a real perceived cost leader, and there aren't any real perceived cost leaders in the top four or five."

"Once you have four or five guys controlling 90% of the industry sales, you have less to gain from battles for market share increments, and that could lessen the need for competitive bidding or price wars.

"That could mean that in two or three years, margins will stabilize in this industry, and competition will be based not so much on price, but on the types of services that are being offered customers."

Gene Vykukal, vice chairman of Southwestern Drug and chairman of the National Wholesale Druggist's Association, agrees with Tauscher, but also thinks that changes have to be made now if that stability is to be achieved by 1987 or earlier.

"Some of the corrective measures are being taken now," he said, "but they only began at the end of last year, and I'm not sure if there's enough happening to help 1986's profitability.

"But in 1987, I think we'll see improvements, and it's for a variety of reasons: changes that are being worked out now to improve the charge-back systems, the possible passage of legislation that will clarify the legitimate role of secondary suppliers in drug wholesaling, the elimination of inequitable price differentials for different classes of trade, the digesting of all the major acquisitions that have occurred in our industry, and the continuation of the consolidation phase and the maximizing of the efficiencies that acquisitions have made possible."

Vykukal, however, also worries that, as the 1985 results from NWDA's operating survey show, "the cost of goods sold is once again outpacing the industry's ability to become more efficient."

Like most wholesalers, he questions "how much further we can go in improving profits through operational efficiencies alone."

"In the past," said FoxMeyer's Tauscher, "we as wholesalers were able to operate by getting back in cost reductions whatever we gave away in price to get the business, but now we've reached a point where there isn't much more we can get back in cost reductions. Maybe there's about 25% of costs left that can be reduced by new efficiencies. That's it.

"From now on, most improvements in profits will have to come either from margins or from inflation, and with inflation running low and beginning to look like it may go lower, the improvements will have to come from margins."

Are more operational cost savings possible?

Some wholesalers say industry can always count on technology to help them do better.

"You can always do better at managing your operations," said Seth Harris. "You can particularly do a lot better as you get larger. A small change in one area can produce large dollar savings in another area."

At McKesson, Polastri agrees that the industry has made tremendous strides in generating savings through

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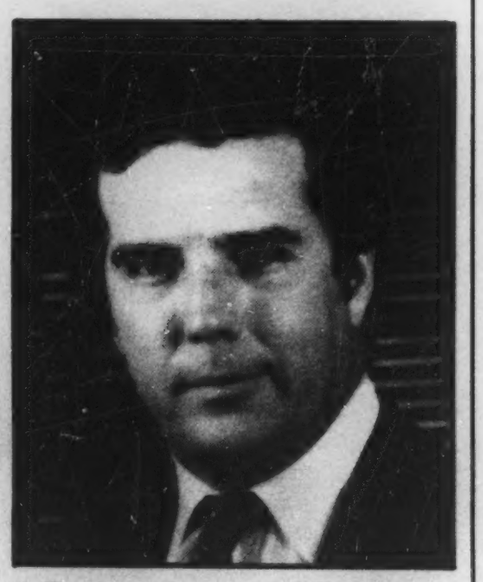

'Once you have four or five guys controlling 90% of the industry sales, you have less to gain from battles for market share increments,

—Bill Tauscher
chairman, FoxMeyer

Wholesaler distribution centers

Company	Number '85-'86	Number '86-'87	Sales per DC (in millions)
McKesson	56	54	$ 73.2
Bergen	43	48	50.0
Amfac	39	37	14.5
Alco	20	26	50.0
FoxMeyer	12	13	100.0
Harris	9	9	100.0
Bindley Western	6	6	105.0
Durr Fillauer	5	5	55.0
Owens & Minor	4	4	109.0
Humiston-Keeling	4	4	80.0
Ketchum	4	4	76.0
Miami-Luken	4	4	15.0
Dik Drug	2	2	No Est.
Louis Zahn	1	1	190.0
Drug Guild	1	1	150.0
Twin Cities	1	1	150.0
Northwestern (Minn.)	1	1	69.0
Walsh-Lumpkin	1	1	55.0
Kendall	1	1	40.0

Source: *Drug Store News* survey

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'86 ANNUAL WHOLESALER REPORT

Warehouse consolidation boosts efficiency

Continued from page 19

technology enhancements. "We're now in the third generation of trying to improve the distribution network by making improvements internally," he noted.

Although Polastri believes that the industry has "done all we can with improving productivity from people," he does think there may be new systems emerging that can yield even higher productivity.

McKesson, he says, is planning an experiment starting early next year with some new systems developed in Europe. Polastri would not talk about the experiment in depth, but said it did not involve robots and was a "different concept and very complex."

McKesson, which is involved in a number of different areas of distribution, is also testing combination warehouses that can put several different companies under one roof, thus eliminating what Polastri calls "the superfluous internal parts of each operation, like accounting, overlapping management layers, etc."

'The blood is out of the turnip as for what we can still achieve with cost reductions.'
—Bill Tauscher
chairman,
FoxMeyer

The first McKesson combo warehouse opened over a year ago in Honolulu, and the second will open next spring in Memphis.

The Memphis warehouse will have four companies under one roof: the drug wholesaling division, the Valu-Rite voluntary division, the McKesson office supply division and the McKesson veterinary supply division.

"We won't need four distribution managers to run this warehouse," Polastri said, "just one. With four companies under the one roof, they'll all use the same warehouse, the same trucks. Before in Memphis, we would have had to have four trucks following the same route. Now we'll have one."

Polastri said McKesson hasn't yet identified all the dollar savings that are possible with the combination warehouse, but he did say the company will open three more in 1988, all in sites not yet announced.

"We'll be consolidating as we go in," he said. "There was a time when we had over 100 distribution centers; now we have 50, and that trend will continue."

Yost points out that of all the drug wholesalers, McKesson is in the best position to continue to develop efficiencies from operational improvements.

This is partly because McKesson generates nearly twice as much dollar volume from its distribution centers as Bergen, its closest competitor, and about three times more than Fox and Alco, the other two members of the top four.

No one else—except FoxMeyer to a smaller extent with its Ben Franklin division—is doing what McKesson is doing. Says Yost, "They're not just a drug wholesaler, but a national distributor of consumable nondurables. They have the mass merchandise division. They're looking at grocery stores, mass merchandise stores and combination stores, all as new avenues of growth."

It is because of McKesson's special situation, sources say, that it can continue to find more cost reductions through technology. However, for most of the smaller local and

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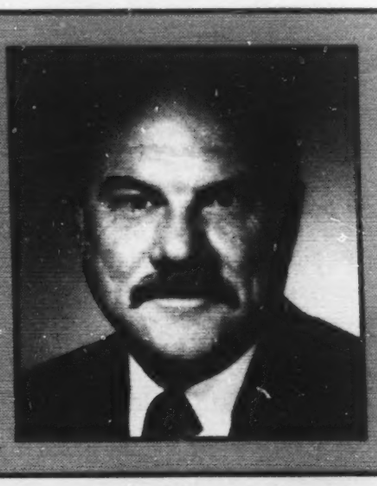
'There was a time when we had over 100 distribution centers; now we have 50, and that trend will continue.'
—Joe Polastri
president,
McKesson Drug



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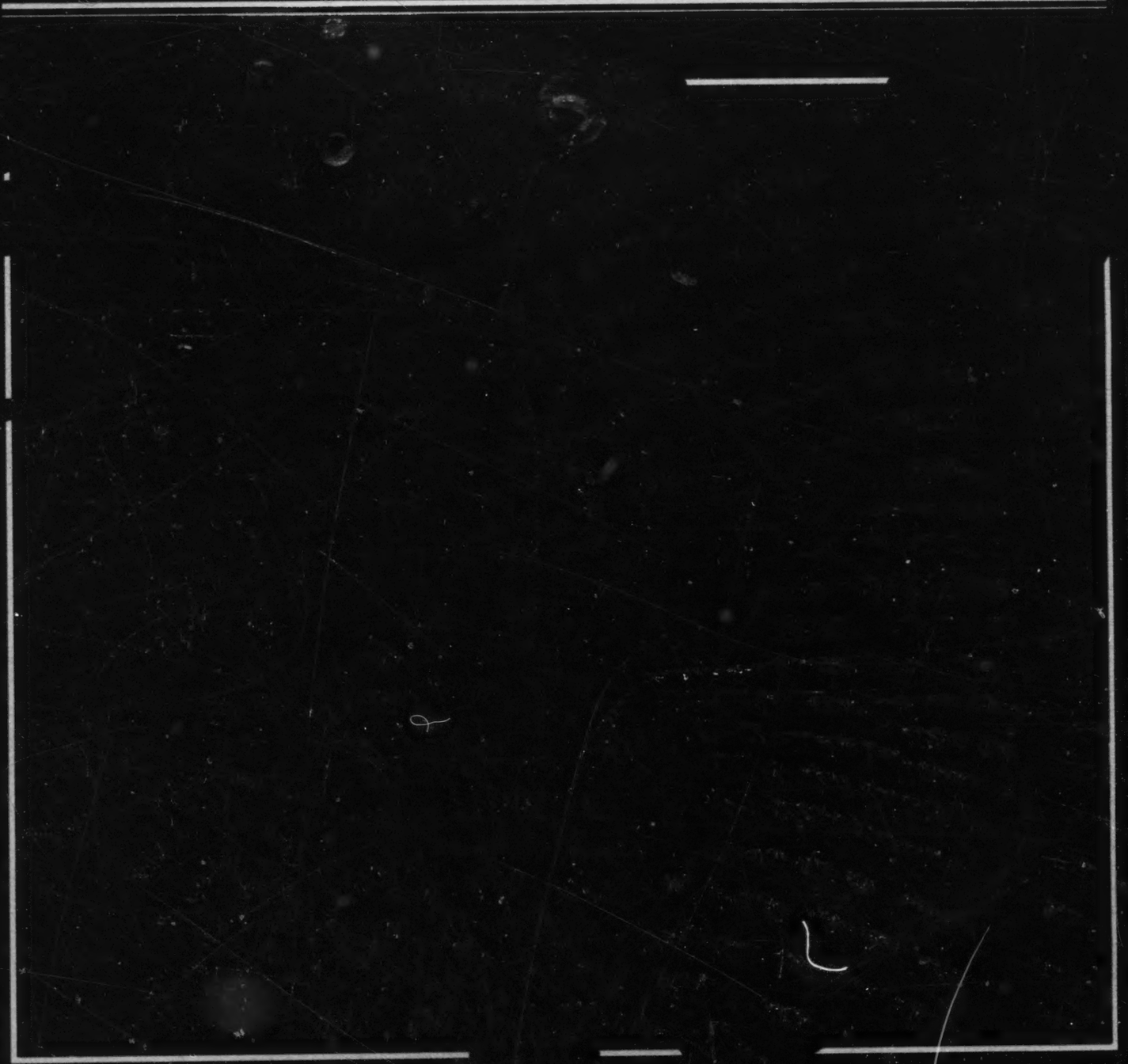

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Services expected to fuel competitive fires

Customer mix trends

Sales to:	Dollar sales: past two years: Increased	Decreased	Sales projections: next two years: Will increase	Will decrease
Independent drug stores	67%	22%	56%	33%
Direct deliveries to chain stores	72	6	61	11
Deliveries to chain warehouses	44	6	39	6
Mass merchandisers	22	0	28	0
Food/grocery/ combination stores	22	0	22	6
Clinics and HMOs	44	0	50	0
Nursing home suppliers	50%	6%	33%	6%
Nursing homes direct	0	0	6	6
Physicians	0	0	0	6
Mail-order houses	17	6	17	0
Hospitals	56	17	61	22
Home health care store owners	33	0	22	6
Retail buying groups	50	6	59	6

Source: Drug Store News survey

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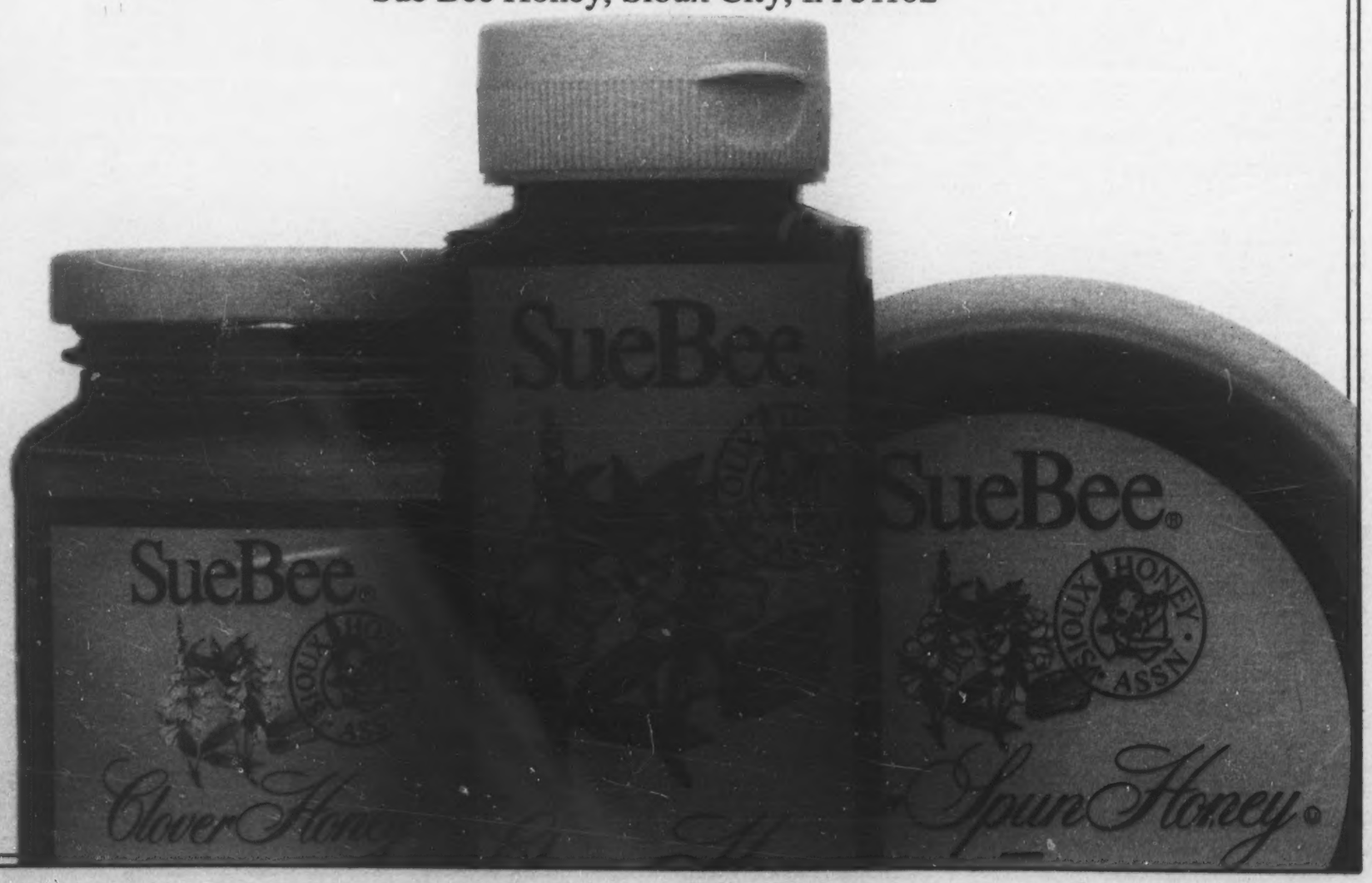

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regional companies, that task will be much harder, as it will be for many of the wholesalers in the top 10.

Further reductions difficult

"The blood is out of the turnip," said Tauscher, "as for what we can still achieve with cost reductions. When that's done, the question is will the major wholesalers who are left recognize that we really do have to get a reasonable return on sales?"

Alco Health Services' McNamara also agrees that the industry is reaching "the point where pricing has gone about as far as it can go. Now the wholesaler has to get margins in line to where they're reasonable."

McNamara thinks the industry is approaching the point where competition among the leading wholesalers will no longer be over prices, but over services.

"With the possible exception of buying groups," he said, "no one is concentrating today just on price. People stand or fall on the services they can provide."

McNamara also says that buying groups are hurting the industry's profitability because they sometimes force the wholesalers who bid for

The industry is reaching 'the point where pricing has gone about as far as it can go. Now the wholesaler has to get margins in line to where they're reasonable.'

—John McNamara
exec vp,
Alco Health Services

their business to pick up products and lines that cannot be efficiently carried in a warehouse.

"Some of these products take up lots of cube," he said. "They're slow moving, poor turning. Sometimes they duplicate similar products or lines that we're already carrying, but because the buying groups are interested only in price, they're forcing the wholesaler to carry products that make them less efficient."

Status of price differentials

On the question of manufacturer price differentials, which are generally blamed for much of the problem of illegal diversion, wholesalers say they are still not certain where this practice is trending.

Some say the process is just as widespread as ever and that manufacturers are not doing enough to remove the "inequities of the marketplace." Others are encouraged by the recent actions of manufacturers like Merrell Dow to reduce or eliminate differentials in their system.

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'86 ANNUAL WHOLESALER REPORT

Buying groups reduce margins

Drug wholesalers: Voluntary, co-op and franchise services

Company	Voluntary, co-op or franchise	Number of members
McKesson	Valu-Rite	3,000
Bergen Brunswig	Good Neighbor	475
FoxMeyer	Health Mart	500
Alco	Family Independent Pharmacies	1,000
Amfac	ABC Pharmacies	1,140
Harris	Super Service	320
Durr Fillauer	Price Guard	320
Ketchum	PIP	280
Humiston-Keeling	Service Pharmacy	600
Dik Drug	Centsible Drug	135
Louis Zahn	Family Drug Centers	50

Source: *Drug Store News* survey

Continued from page 22

(A differential is the difference between what a manufacturer charges one class of customer, such as a hospital, and what it charges another class—the retail trade through a wholesaler—for the same products. The differentials have often been huge. To make extra money, some hospitals have been known to buy more than they need and then sell the excess product to a wholesaler or retailer at a cost less than what they would normally have to pay the manufacturer for that same product.)

Status of buying groups

Starting in late 1984, many retailers, particularly independents, began to fight back against what they called the "unfairness" of the differential systems by forming buying groups of their own. The groups negotiated directly with the manufacturers for the lowest prices, usually for products carrying the highest differentials.

'In the next one or two years, the growth of buying groups will start to level off.'

—Joe Polastri
president, McKesson

To get the distribution business, wholesalers were forced to bid for the groups' business. Many wholesalers said the bidding has been "intensely competitive," and that is "one of the chief reasons why margins are eroding."

At FoxMeyer, Tauscher says wholesalers are partly to blame for the rise of the groups. He says that in some instances, particularly with generic drugs, wholesalers have not done a good job "at negotiating the lowest possible acquisition costs," consequently creating a reason for the buying groups' existence.

However, he believes wholesalers are now awake to this problem and that they are becoming more aggressive in negotiating better prices.

Tauscher, like most wholesalers, also thinks that the buying groups "exist solely for the purpose of providing price. They cannot offer the services that a wholesaler can offer, and as we as wholesalers start to match them with prices, they will either go away or change into some other form. But I don't think they will continue to operate as we know them today."

At McKesson Drug, Polastri and senior-marketing Fred Toney made a similar prediction. "In the next one to two years, the growth of buying groups will start to level off," they feel.

However, even if buying groups do fade from the scene, there may be a new complication emerging that could be either a threat or an opportunity for wholesalers.

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'86 ANNUAL WHOLESALER REPORT

Hospitals remain growth area for industry

Continued from page 24

At Bindley Western, Bill Bindley called the emergence of the practice of manufacturers making prepackaged pharmaceuticals available to physicians a "double-edged sword for wholesalers."

"It could be a source of new users or new business for wholesalers," he said, "or it could eliminate business from our normal source of trade: the retailers."

Bindley said he couldn't tell at this point what the new development might mean for wholesalers, but that the industry will have to take a "wait-and-see attitude."

Clarification of role

Diversion is also a question mark. The Justice Department recently issued an opinion clarifying its position on the legality of secondary source buying, and for the first time there is a formal governmental document stating that secondary source buying is not illegal per se.

Several wholesalers say that last year, after the F.B.I. cracked open a multistate diversion operation involving a number of wholesalers, pharmacists, physicians and manufacturer reps, they were told by Justice officials that all secondary source buying was illegal.

The latest opinion, say wholesalers, is a "180-degree turn from last year's position," and it makes it possible for wholesalers to buy pharmaceuticals from sources other than manufacturers without assuming any overwhelming legal liabilities.

The document states that secondary buying is not illegal per se but that the purchaser, usually the wholesaler, does have an obligation to obtain from the seller authorization proving that the goods being sold are not counterfeit and have been legally acquired by the seller.

Most wholesalers applaud this latest development, and many of those who have stopped buying from any secondary source for fear of being outside the law said they will now reconsider their options.

"What the new Justice Department ruling does now," explains Tauscher, "is in effect warn the buyer that he or she has a legal responsibility to be sure the purchase is legitimate, especially when they are offered the product at a price considerably below the current market."

Hospital growth

For the past two years, wholesalers have been trying to generate more sales and more profits from diversifying into new areas of business, and in this area, hospitals have been a major source of growth for wholesalers large enough to service this market efficiently.

Last year, wholesalers like McKesson, Amfac and Alco reported dramatic increases in sales to hospitals. This year, however, most of the large wholesalers report that their growth is still good, but the percentage is not as dramatic because of the bigger base.

At McKesson, Polastri said the growth in hospital business in 1986 is so far about 15% over last year. At this time last year, McKesson was recording growth increases of about 30% in hospital sales.

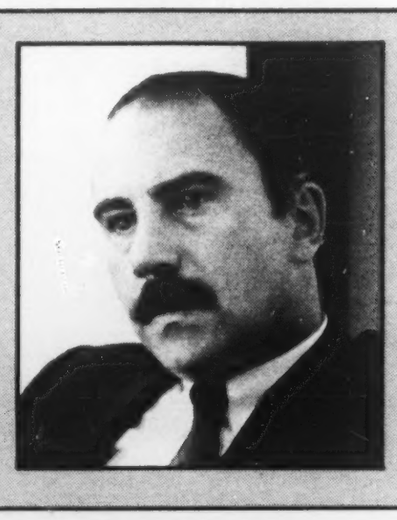
McKesson also said wholesalers have reached the point where they will not lower margins any further in order to penetrate this market.

"The expansion into hospitals will continue," said Polastri, "but not at the expense of lower gross margins.

Other wholesalers said it is "virtually impossible for margins to go much lower in the hospital business. If they did, no one would be making any money."

'Independents know that they can only go so far with price, and then they have to attract customers with other services and other strategies.'

—Bob Aitchison
vp-marketing, health services
Alco



Besides lower margins, wholesalers also complain about the slowness of the charge-back system in their transactions with hospitals. Most are hoping that in 1986 or early 1987, they will be able to work out with manufacturers a quicker way to be refunded for their investment in supplies for hospitals.

As it stands now, wholesalers have to wait anywhere from 30 to 90 days and sometimes as long as 120 days to get compensated for pharmaceuticals they sell to hospitals, they say. (Charge-backs are the amounts of money manufacturers will refund wholesalers for certain pharmaceuticals distributed to hospitals. Many manufacturers contract to sell certain pharmaceuticals to hospitals at a lower cost than they charge retailers. Wholesalers who distribute these pharmaceuticals to hospitals, based upon the terms of the contracted price, are entitled to reimbursements generally referred to as charge-backs.)

Growth areas

For the smaller or regional wholesalers, most industry sources feel that further sales growth can only come from building onto their existing base of retail customers or through providing more services and a more varied product mix to the customer base they currently serve.

One source said that for the smaller and regional guys, the only market left to develop is the independents.

The top 10 companies, however, continue to look to other trade areas such as hospitals, HMOs, nursing homes, chain drug stores, mass merchandise stores, combination stores and food stores for growth.

However, even in pursuing these markets, size is critical. Several wholesalers said that full penetration of the hospital market is only possible for the top four who can operate simultaneously in a wide variety of geographic markets while providing expanded customized marketing services.

Product mix

The top 10 are also doing the most to expand the mix of products they carry. McKesson is expanding into veterinary supplies, office supplies, hospital and surgical supplies and health care. FoxMeyer is expanding into generics, which Tauscher calls a very attractive market, still undeveloped for wholesalers.

"About 10% of all pharmaceutical sales today," he said, "are done by generic companies, and I'd estimate that wholesalers right now only have about 50% of that business. The rest is going direct or through other suppliers."

At FoxMeyer, Tauscher said generics is "our fastest growing product segment, doubling each month over the prior year."

Home health care is still considered by many wholesalers a very attractive area whose potential is still to be realized. Wholesalers say this market probably will not explode overnight because it is a

Continued on page 28

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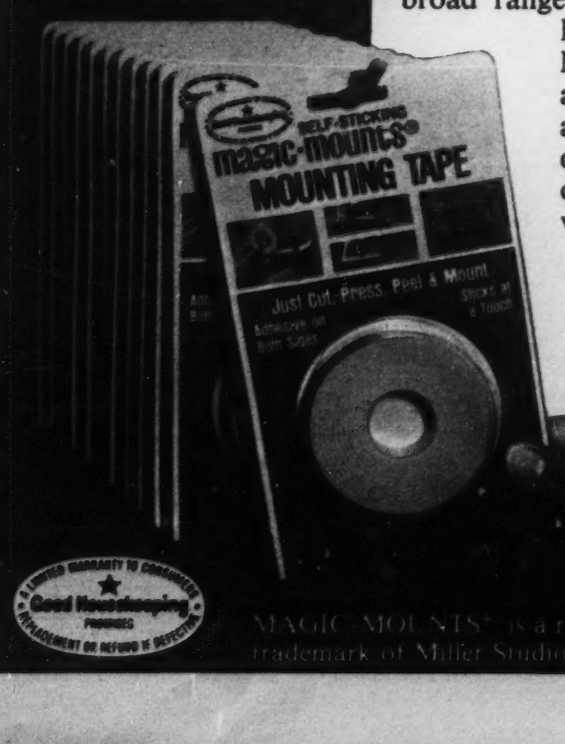

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'86 ANNUAL WHOLESALER REPORT

Wholesalers target voluntaries

Continued from page 26

"complex business that must be studied and grown in a steady, careful fashion."

As wholesalers consolidate and get bigger, they are trying to pass along some of their savings from efficiencies to customers. For the independent retailers, that has meant a dramatic growth in the past few years in wholesaler voluntaries or cooperatives.

At McKesson, which has the industry's oldest voluntary in Valu-Rite, there are now 2,300 stores in the program, and it is growing at what senior vp Fred Toney calls a dynamic rate.

"We're adding about 100 new stores a month," Toney said, "and the growth is there because we're providing the services that today's independents need."

FoxMeyer's Tauscher says the growth rate in the FoxMeyer voluntary, Health Mart, is just as dramatic. "No one can compete today just on the basis of price," he said. "The retailers need strong servicing to grow as well as survive, and we can see that those who belong to voluntaries and who participate actively in them, as Health Mart members do, do much better on average than retailers who are not members."

At Alco, Bob Aitchison, vp-marketing for health services, said the voluntary Family Independent Pharmacies have now topped 1,000 stores, and the driving force behind their growth is value-added services.

"Independents know that they can only go so far with price," Aitchison said, "and then they have to attract customers with other services and other strategies.

"That's why buying groups are not the answer for the independents. For them to go out past price and try to re-invent the wheel is redundant."

Electronic data transfers

At the National Wholesale Druggists' Association, president Charles Trefrey believes the industry will be able to achieve further cost savings from the implementation of more complex electronic data exchange systems, particularly between wholesaler and retailer.

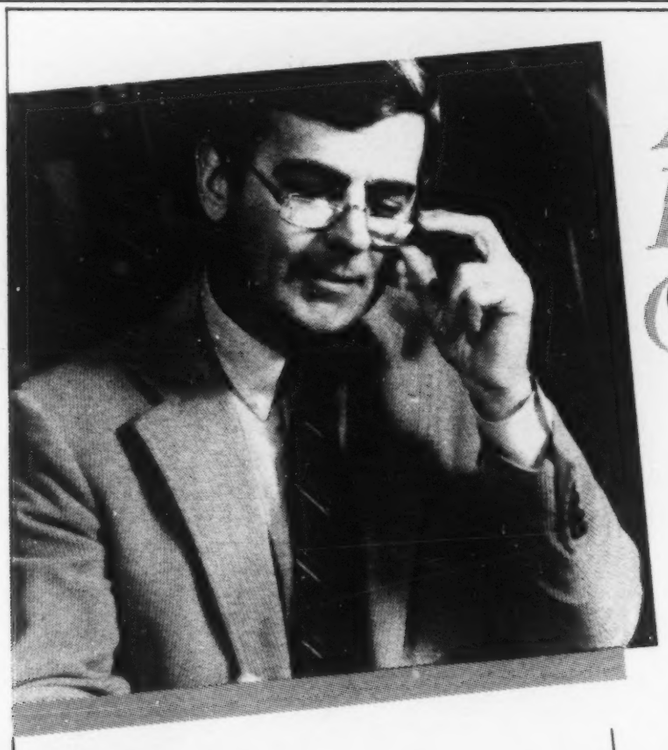
"The majority of companies now have the ability to exchange information electronically," said Trefrey. "What we're doing now at NWDA is help the industry move toward a standardized form of exchange."

Trefrey pointed out that the closing of the electronic link between wholesalers and manufacturers would result in savings similar to those achieved by retailers and wholesalers when electronic order entry systems were implemented: reduction of paperwork, elimination of errors and the expediting of orders.

Bergen's Fay points out that when electronic links are formalized between wholesalers and manufacturers, it might result in wholesalers adding another 20 share points to the amount of pharmaceutical business now done through wholesalers.

In 1985, the Pharmaceutical Manufacturers Association estimates, about 64% of all ethical pharmaceutical manufacturer sales for human use was distributed through drug wholesalers.

If that share were to rise to 85% over the next few years, it would dramatically help wholesalers improve profitability, Fay points out.



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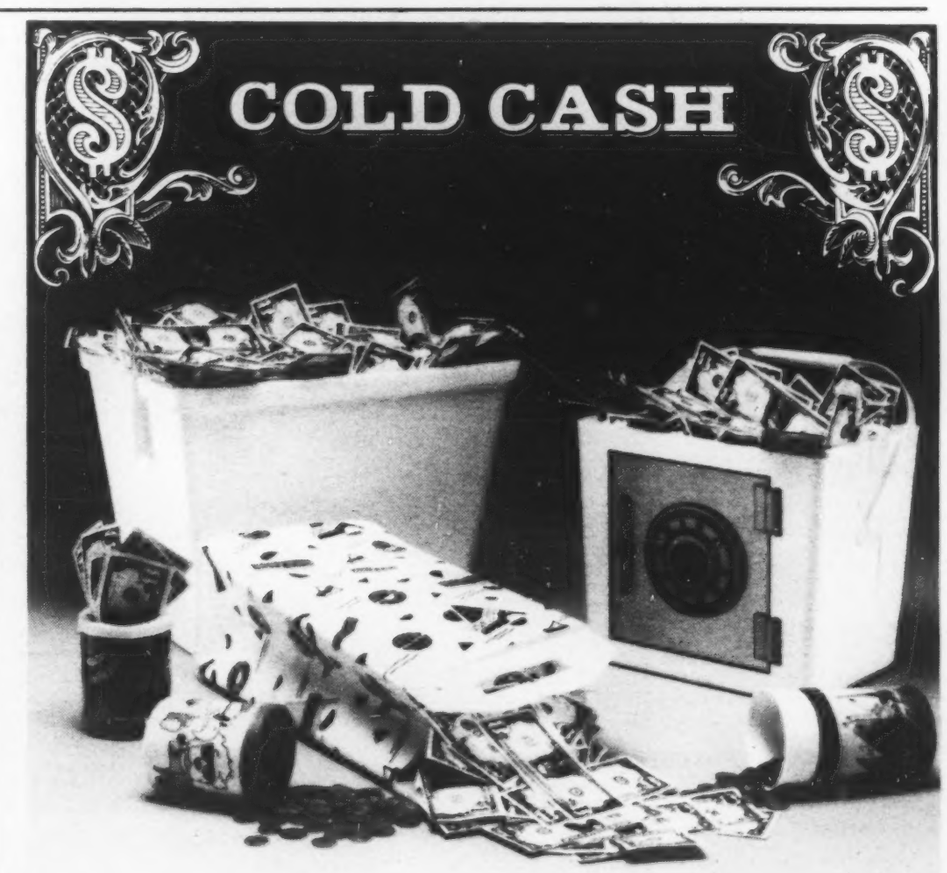

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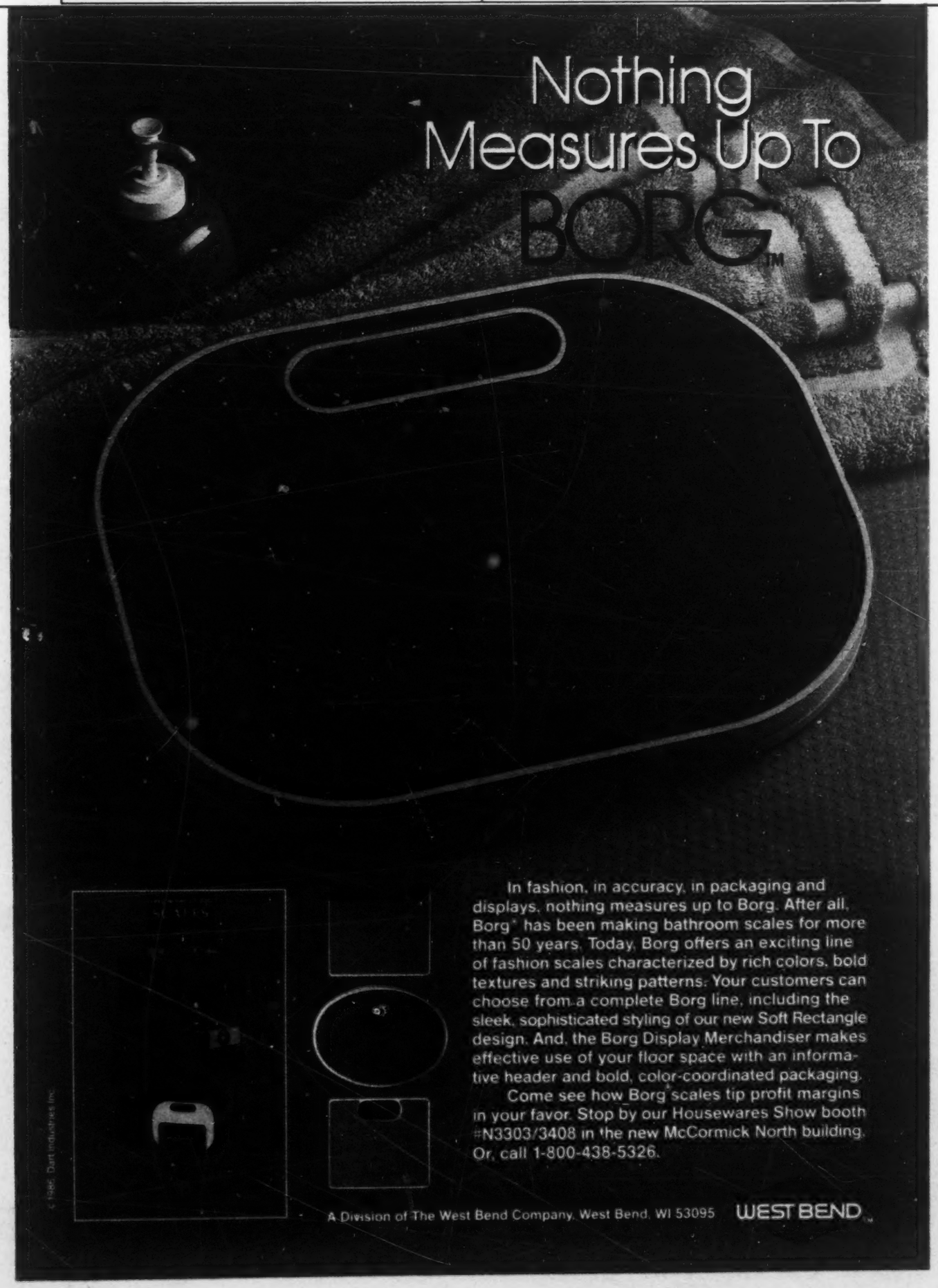
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MERCHANDISING TRENDS

Drug store '85 housewares share climbs to 7%

Surpass supermarkets as preferred retail outlet

CHICAGO — Drug stores are grabbing a larger share of the nation's housewares volume, estimated at $23.2 billion in 1985.

Merchants in the retail drug trade upped their status to become the fourth most popular type of store for housewares merchandise. They snatched a 7% share for the first time in the 20 years the housewares industry has been measured.

The drug store share rose from 5% in 1984 to 7% in 1985, surpassing supermarkets for the first time. The food store share of housewares sales skidded from 7% to 5% in the last full year, according to statistics in the 19th annual study of housewares manufacturers by the National Housewares Manufacturers Association. Some 610 companies responded.

The improved stance of drug stores leaves them behind discounters such as K mart, Wal-Mart and Bradlees; catalog showrooms such as Best Products and Service Merchandise; and department stores.

They're all vying for leading shares of a business that shrank in 1985 for the first time in 16 years. Housewares manufacturers' total dollar sales volume decreased by 5.6% from $24.6 billion a year earlier.

Factors cited

What's going on here? Manufacturers cite "changes in the competitive mix," presumably more low-ticket items in the marketplace, and "increasing impact" of imports.

Retailers would add another dimension to that explanation. Affiliated buyer Donald Vanecek summed up this point of view neatly when he noted "the lack of new merchandise in any category."

Indeed, that's an age-old criticism by retailers, but a probe of the industry would lend support to that statement. Nearly half, or 46% of housewares manufacturers, reported annual sales of less than $2.5 million, leaving little for research and development efforts. Some 24% of housewares manufacturers have an even more acute problem because their sales are less than $1 million.

New products may be the lifeblood of the housewares industry, but manufacturers and retailers differ on whether the blood is flowing.

Skeptical housewares merchants point to the copycat tactics of vendors, who offered so far in the 1980's a half-dozen versions of the downsized food processor originated by the Sunbeam Oskar, and a similar number of imitators of Black & Decker hand-held vacuums and rechargeable lights, as examples.

They contend further that cordless kitchen electrics, under-cabinet appliances and even electronic irons were just modifications of existing products that provided new features, not new function.

Price obsession blamed

On the other hand, vendors blame retailers' price obsession for weak industrywide R&D efforts; they say that caused them to channel engineering efforts toward cost cuts instead of new product design.

A valid question lingers above the debate: How many ways can you open a can, perk coffee, dice food or dry hair? Are there new useful housewares functions left?

It seems for the moment that drug stores will find their best opportunities in microwave cookware and food storage sku's that grew out of increased national household penetration of microwave ovens and a greater stress on convenience by today's consumers. Ultrasonic humidifiers at a magic $39.99 price point are popular because of health concerns, as are electronic blood pressure kits and thermometers to tap shoppers who won't skimp on health-related merchandise.

Household cleaning and chemicals is becoming a more important traffic-building category in drug stores, as at Dart, Falls Church, Va., which promotes large size laundry detergents by the walk-in.

Drug stores' edge

Drug stores have an edge in merchandising the likes of massagers, humidifiers, blood pressure kits and thermometers because consumers associate drug stores with health. Moreover, the dominant discounter competitors haven't decided where best to display them, so they aren't easily found. Also, pharmacists can explain how to use the items.

Moreover, improved health care technology has led to lower prices and easier-to-use product designs, which has broadened the market. There are also Medicare and Medicaid fund cuts, an escalation of professional health care costs, an aging populace and a willingness among consumers to buy higher-end feature-laden models.

On the other hand, drug store retailers seem to be cutting back on the number of suppliers and sku's they deal with in personal care, often going with one key source and one price alternate, trade sources told *Drug Store News*.

That's making it tough for newer butane-powered hair care appliances to gain shelf space despite their innovativeness.

Retailers said low margins are the problem in personal care, and the shift is part of an inventory management process. That's exactly the problem that colored hair blowers attacked last year by targeting a teen market willing to pay full 30%-35% margins for fashion colors. That worked for a while before retailers started to mark down these popular items as well.

Persistent low pricing in personal care has apparently led to the sku cutbacks, lending credence to manufacturer comments about suicidal price tendencies among retailers.

Rise appears surprising

The increased housewares share at drug stores seems surprising, given the trade's penchant for reverting to core categories in tough times. Indeed, Fay's has cut housewares footage, inventory and ad activity this year, and many chains remain conservative in their approach to the category.

However, several reasons help explain why drug stores are faring better in housewares. Discounters slipped from a 38% share to a 32% share in 1985, leaving a void picked up mostly by catalog showrooms and drug stores.

Drug store merchants have become keener in cherrypicking promotional goods such as humidifiers, low-ticket subcompact microwave ovens and cookware and low-ticket downsized food processors.

In addition, drug store operators have become more adept at using household chemicals, cleaning supplies and paper goods as promotional traffic draws into housewares departments,

Continued on page 87

White is hot!

What colors should drug store merchants consider when ordering housewares items at the November Housewares show? How about white, white and more white.

White was the preferred color in five product classifications, according to manufacturers surveyed by the NHMA. White led in bath accessories, closet accessories, kitchen appliances and accessories, outdoor products and accessories, and serving and buffet products and accessories.

Moreover, white was expected to be even more popular in 1986, respondents said.

They felt white would strengthen its lead in bath over blue to hold a 48% to 26% margin in 1986; in closet over blue, 56% to 14%; kitchen over almond, 58% to 23%; outdoor over red, 37% to 18%; and serving and buffetware over red, 38% to 17%.

Drug stores improve housewares stance
(Mfr. sales in billions of dollars)

	1984 sales	1984 % share	1985 sales	1985 % share
RETAILERS	**$20.4**	**83%**	**$19.9**	**86%**
Discount department stores	9.3	38	7.4	32
Catalog showrooms	2.2	9	2.8	12
Department stores	2.5	10	2.3	10
Housewares/hardware stores	0.7	3	1.4	6
Supermarkets	1.7	7	1.2	5
Variety stores	0.5	2	0.7	3
Mail order	0.5	2	0.5	2
Home centers	0.5	2	0.5	2
Others*	1.2	5	1.6	7
WHOLESALERS	**$ 4.2**	**17%**	**$ 3.2**	**14%**

*Includes buying syndicates, warehouse clubs, others.
Source: NHMA, B. Angell & Associates

Home health care comes naturally to drug chains

HOME HEALTH CARE

By Dave Vaczek

Drug chains are cautiously advancing into home health care, relying on their retailing expertise and strength as health care educators.

While drug chains are well-positioned as merchandisers and pharmacy professionals, industry analysts say the market has become more complex and uncertain, influenced by the revolutionary trends rocking the health care industry.

Chain officials and wholesalers with programs that supply independents agree the prospect is bright. Although estimates on market size and growth vary dramatically, it is clear that home health care growth will outstrip growth of the general health care market, as economic and demographic trends come to bear, according to industry analysts.

Growth spurred

The aging population and the pressure to control health costs—with the Federal government leading the way—are the two key factors that will propel home health care growth into the next century, they say.

Chains such as Hook, Peoples and Perry Drug have led the way in developing freestanding stores—"home health care centers" designed to offer one-stop shopping convenience to customers, including hospitals and HMOs. Harco and Begley are leaders among the smaller chains, with strings of freestanding units catering to most home care needs. Walgreens has emphasized growth in its Chicago-based home medical centers, and Thrift recently launched a program that supplies durable medical equipment in the Atlanta area.

Independents are expanding their exposure with wholesalers' programs that often provide service support in areas such as claims processing and market positioning.

Natural extension

Chains say they are motivated by more than profit from home care equipment sales. They see home care as a natural extension of their professional services, since the two often serve the same geriatric or ailing customers. The new departments also reinforce the health care image.

New competitors are coming into the market from all sides. But today's highly fragmented market is already undergoing a shakeout, marked by consolidation and dropouts.

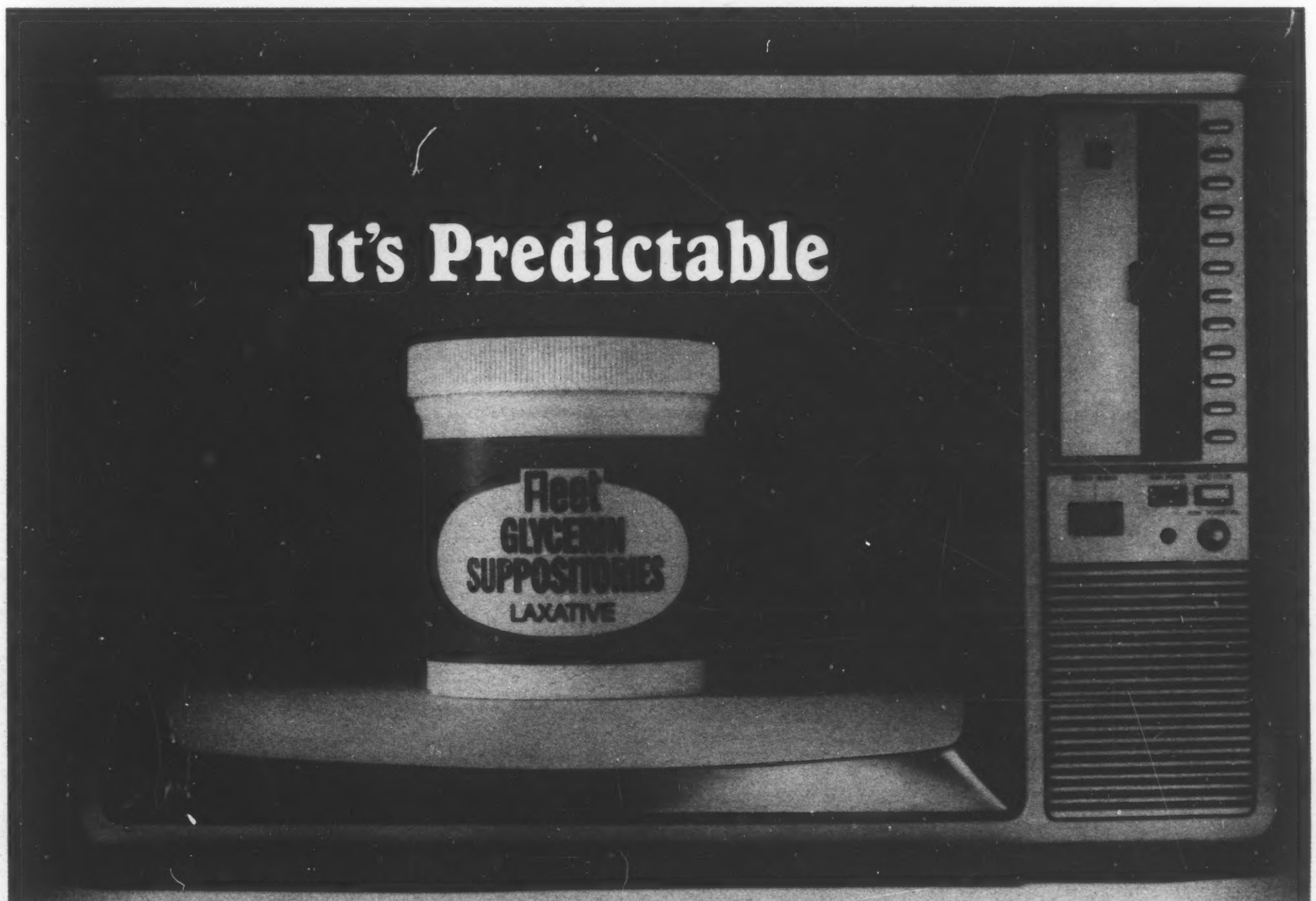
"Consolidation is inevitable. The market is highly fragmented, with 5,000 to 6,000 companies supplying services and an equal number providing equipment," said Teri Louden, president of Louden and Company, a Chicago-based health care consulting and information service firm.

Hospitals and HMOs are rushing into home care as competitors to drug stores and as customers. Traditional suppliers of home care products, such as DME dealers and home health care agencies, are expanding their businesses or merging.

The uncertainty in the market is also being fueled by the Federal government's drive to contain health care costs, which will lead to further controls on home care reimburse-

Continued on page 56

Perry Drug Stores staffs Comfort Care Center in Pontiac, Mich., with full-time home health technician. Here, staffer Linda Brooks assists a customer.



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INSIDE PHARMACY

Chains eye cost-curb impact

Continued from page 55

ment and possibly to a capitation system similar to the prospective payment system imposed on hospital costs in 1983.

Rules limiting cost continue to be adopted by the Health Care Financing Administration. Last month, H.C.F.A. endorsed a rule that would give the agency the same right now enjoyed by Medicare carriers to impose limits based on what is determined "inherently reasonable."

On the table is a plan to extend "lowest charge levels" that control reimbursement levels (and have until now applied to wheelchairs and hospital beds) to about 80 additional DME items. The new guidelines follow a 1985 rent/purchase guideline that requires Medicare recipients to purchase DME items priced at under $125, and purchase rather than rent higher ticket items in cases where a sale is more cost-effective.

The new laws compound the task of Medicare billing. Chains say the impact on sales is less than clear at this time, but will likely drive down prices.

HMOs and PPOs

HMOs, PPOs and private insurers are hot on the government's trail in their own efforts to curtail health care costs. HMOs and PPOs are price shopping for services and are increasingly using utilization reviews that screen providers' performance, said Louden.

"HMOs and PPOs are dedicated to reducing health care costs, and like others before them, they will look to home health care to aid in this process," Louden observed.

The forces of competition and cost containment have already been felt in areas such as DME, where pretax profit margins have shrunk from the 25%-30% levels of two years ago to 12%-15% today, according to Michael Hamilton, president of Diversified Medical Management, a Birmingham, Ala., consulting firm.

Profitability cut

"The average profitability in the DME industry has been cut roughly in half in the past two years," said Hamilton, citing forces including increased expenses and pressure on prices from competition and Medicare.

One home health care official of a large drug chain said that DME remains attractive in spite of these leveling forces allowing a profit of $75 on a wheelchair, compared with $150 several years ago.

"We are receiving outrageous margins. They're becoming more and more realistic," he said.

Drug stores are favorably situated in two respects against the emerging competition, analysts say.

Their pharmacy services—where pharmacists are perceived by the customer as trusted educators—give them an edge against such competitors as DME dealers and other health equipment companies, who are accustomed to selling products through hospitals, with little customer contact.

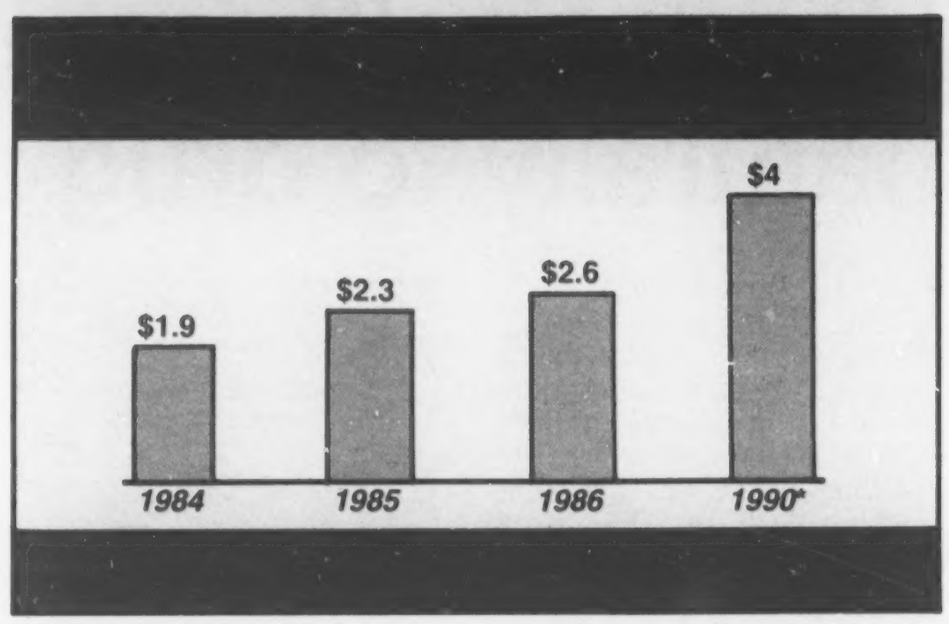
Chains also have a leg up on hospitals and HMOs with their expertise in merchandising.

But these strengths don't guarantee success in a market that is highly segmented.

For each category, different reimbursement rules will apply, the customer base will vary and competition and pricing will vary depending on the market.

Said Louden: "You need to segment the market very

Continued on page 57



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Trained technicians who are sensitive to customer needs play an integral role in Peoples' health care operations.

Wholesalers steering indys to home health care niches

Continued from page 56

carefully. There is an opportunity in selected segments, but every one of the segments is different and has to be appraised differently."

Responding to this fact, wholesalers are guiding independents into niche markets, based on the local opportunity and the services they can afford to offer and feel comfortable in providing.

Chains with complete home health care centers must emphasize reaching the large majority of customers who purchase through referrals from health care professionals, and retaining customers through professional service, observers say.

Peoples Drug has emphasized detailing to doctors, hospital discharge personnel and others who influence where customers buy products in building its program around four stores, two in the Washington, D.C., market and one each in Virginia Beach and Richmond, Va.

Emphasis is also placed on staffing stores with people who are sensitive to customers' needs and who complete the chain's training programs to be health care technicians.

Recognizing that customers are becoming more product aware and more independent from institutional advice, Peoples also emphasizes direct-to-consumer advertising with weekly newspaper ads and a product catalog displayed in all its stores.

Wellby Drugs, on the other hand, has set its home health care program on a new track to sharpen Medicare billing and detailing, according to Richard Legere, pharmacy specialist at the Portland, Me.-based chain.

"We really weren't talking to the people who did the referrals," Legere admits. Medicare billing became snagged as a result of lack of expertise.

Wellby's Med-Supply program is based on a contract with National Medical Home Care, which supplies products to customers after they place the order in a Wellby store. To attract patients, the stores displayed fliers describing the service and offer an 800-WATTS number.

"This was very confusing, since our pharmacists had no real contact with the patient," said Legere.

Rxer turns billing specialist

The chain has since designated a former pharmacist and systems coordinator as Medicare billing specialist. Customers now order products through the store pharmacist, and products are delivered through the stores, to promote pharmacist-customer contact and build the health care image, Legere noted.

The chain is experimenting with 1,000-sq.-ft. in-line departments in two stores in Brewer and Skowhegan, Me. The chain is also redirecting efforts to boost its detailing program. Pharmacists have become more interested in the program with NMHC, now that they have a more central role.

"We're not trying to get in to dominate, but to offer an additional professional service to our customers. But if in six months we don't see an increase in referrals, we would really have to question our involvement in this program at all," Legere said.

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Circle #033

Study finds OTC buyers want more detailing

Representatives of over-the-counter drug companies are not making the most of their detailing visits with chain and independent OTC buyers.

According to *Drug Store News'* 1986 OTC Buyer Feedback Survey, buyers at the 30 chains and independents polled are generally satisfied with the frequency of visits, but are less than satisfied with the information they receive on topics they feel are important.

Buyers rate services

The buyers were asked to rate 15 areas of service they considered important and to indicate their degree of satisfaction in each area.

While the survey found that there was improvement in 13 of the 15 service areas over last year (when this study was last conducted), most of the buyers still were not "very satisfied" with those services they felt of prime importance.

Chain satisfaction low

For instance, 80% of the chain buyers said they considered the company's return goods policy and co-op advertising highly important (with the latter being considered most important). But less than half (44%) of those 80% were very satisfied with the information being offered by the reps on return goods policy, and only one-third (33%) were satisfied with the co-op advertising information being provided.

Other areas where reps appear to be missing the boat include:

- Display allowances (while they were considered important by 70% of the buyers, only 24% were very satisfied with information being received).
- Upcoming consumer ad campaigns and promotions (considered important by 77%; only 35% satisfied).
- Invoice dating (considered important by 77%, only a 30% level of satisfaction).
- New product information (considered important by 77%; 43% satisfied).
- Case allowances (67% considered important; only 25% satisfied).

Low importance-high satisfaction

In contrast, the data showed that some of the highest satisfaction levels are being provided in areas the buyers considered of low importance. For example:

- Product movement (27% considered important, 56% satisfaction level).
- Cents-off consumer coupon programs (27% considered important, 67% satisfaction level).
- National market share (23% considered important, 57% satisfaction level).
- New display materials (20% considered important, 50% satisfaction level).

Services rated "very important"

Service	Type of Company: Chain	Type of Company: Independent
Merchandiser promotions		
Return goods policy	80%	87%
Display allowances	70	30
Case allowances	67	20
New display materials	20	17
Obtaining information		
New products	77	57
Regional market share	43	23
Consumer consumption/usage patterns	33	13
Product movement	27	13
National market share	23	7
Consumer promotions/advertising		
Upcoming consumer ad campaigns and promotions	77	30
Co-op advertising	80	20
Consumer rebate program	50	33
Cents-off consumer coupon	27	20
Miscellaneous services		
Invoice dating	80	57
Planograming	10	17
Other	23	13

Source: Lebhar-Friedman research

Regarding planograming, at least there was some consistency. It carries a low priority among chain buyers (10% importance), and not one of those buyers was satisfied with planograming information being offered.

Independents have different needs

Independent OTC buyers narrowed the field of services considered highly important to them to only two: return goods policy (87% said it was important) and new product information (57% said most important).

Visitation frequency OK

Most of the buyers who were surveyed said they were satisfied with frequency of detailing visits.

The majority (94%) said they were visited twice a year or more, and that suited them just fine. Less than half (43%) said that they were visited more than once a month, while 28% said they had monthly visits, and 23% were visited once every two to six months.

The survey *did* reveal, however, that chains are visited more frequently. On average, the chains receive visits once every 1.4 months, compared with once every 2.4 months for the independents.

Overall, both were satisfied with the frequency of visits they were receiving. Only 10% said they would like more visits, and 8% said they wanted to be visited less frequently.

As might be expected, a larger percentage of independents than chains indicated they would like more frequent visits (17% of the independents vs. only 3% at the chains).

OTC mix

OTC buyers from both the chains and independents were asked how they would describe their OTC product mix.

Nearly three-quarters (70%) said they "carry most of the major brands and sizes available to give shoppers a broad variety of selection."

Less than one-quarter (20%) indicated they "carry at least three to five brands in the major OTC categories," and only 10% said they "carry only the No. 1 and No. 2 brands in most OTC categories."

More of the chain buyers (83%) said they "carry most of the major brands and sizes . . . " than did independents (57%). Only 13% of the chains said they "carry at least three to five brands . . . " compared with 27% of the independents. Only 3% of the chains said they only "carry the No. 1 and No. 2 brands . . . " compared with 17% of the independents.

Pricing strategies

Both chain and independent buyers were also asked to choose the pricing strategy that best described them.

No *one* strategy was picked out by a majority, but more than one-third of the buyers (35%), said, "We stay competitive with other drug stores in our market." This was followed by 28% of the buyers responding with, "We have a full-service/full-price orientation." Twenty-three per cent said that "to bring in shoppers, we rely on sales and low promotional prices rather than low everyday prices." And 12% answered, "We rely on everyday low prices with little or no advertised sales." None chose the category "never being undersold."

The chains more often chose the strategy "full service/full price orientation" (37%), while independents most often (40%) chose "we stay competitive."

OTC product advertising

More than three-quarters (80%) of the OTC buyers said they advertise OTC products once a month or more, up two percentage points from last year.

But on closer examination of the data, it was shown that advertising frequency is behind what it was last year.

This year's survey showed that buyers are more likely to advertise once or twice a month (45%), compared with

Continued on page 73

Pricing strategies in OTC dept.

Strategy	Type of Company: Chain	Type of Company: Independent
We stay competitive with other drug stores in our market	30%	40%
We have a full service/full price orientation	37	20
To bring shoppers in, we rely on sales and low promotional prices rather than low everyday prices	27	20
We rely on everyday low prices with little or no advertised sales	3	20
We are never undersold	—	—
Don't know/No answer	3	—

Source: Lebhar-Friedman research

Satisfaction with services among independents

Services of high importance	Percent "very satisfied"
Return goods policy—87%*	34%
New product information—57%	23
Services of moderate importance	
Invoice dating—40%	31
Consumer rebates—33%	30
Upcoming consumer ad campaigns/promotions—30%	36
Display allowances—30%	46
Services of low importance	
Regional market share—23%	25
Cents-off consumer coupons—20%	33
Case allowances—20%	33
Co-op advertising—20%	43
New display materials—17%	80
Planograming—17%	20
Information on product movement—13%	25
Consumer consumption/usage patterns—13%	60
National market share—7%	50

Source: Lebhar-Friedman research
* who reported important

Satisfaction with services among chains

Services of high importance	Percent "very satisfied"
Return goods policy—80%*	44%
Co-op advertising—80%	33
Upcoming consumer ad campaigns/promotions—77%	35
Invoice dating—77%	30
New product information—77%	43
Display allowances—70%	24
Case allowances—67%	25
Services of moderate importance	
Consumer rebate program—50%	33
Regional market share—43%	46
Information on consumer consumption/usage patterns—33%	40
Services of low importance	
Information on product movement—27%	56
Cents-off consumer coupons—27%	67
National market share—23%	57
New display materials—20%	50
Planograming—10%	0

Source: Lebhar-Friedman research
* who reported important

OTC products featured in print ads climb 10%

Continued from page 71

once or twice a week (35%), whereas in 1985 the reverse was true.

As a group, the chains reported advertising more frequently than the independents. This year's survey also showed that weekly frequency has dropped among independents (from 37% to 20%) while remaining relatively stable among chains (a slight drop from 53% to 50%).

The study also showed that the number of products featured in print ads increased nearly 10% this year. In 1986, OTC products accounted for an average of 54.2% in advertising done by both the chains and independents, compared with 43.2% in 1985.

The survey gave one possible explanation for the increase in the percentage of OTC products in an average ad, and that was a decrease in the total number of products advertised. In 1985, chains ran an average of 84.2 total products in an ad, while in 1986, the average was 68. The same was true for independents. In 1985, the average independent ran 36 products in a typical ad, while in 1986, the average was 25.5

Of the advertising that is done, the majority is print. The survey showed that 54.2% of all OTC advertising is done in the print media, up from last year's 43.2%.

OTC sales increase

Once again this year, OTC sales increased just slightly over 10% (10.9% this year vs. 10.5% last year). Seven per cent of this year's respondents said sales have decreased, compared with 5% in 1985.

The sample was split on the reasons for the sales increase. Twenty-four per cent reported that the increase was due either to pricing elements or better advertising promotions and/or displays.

In that group that claimed pricing was a key factor in the increased sales, 8% said it was because of increased prices, while 12% felt they made it up on volume sold when prices decreased.

Other reasons offered for increased sales were more new/larger stores (reported by 16% of the sample); more sales, inventory or population (14% reported this reason); and new products/more items available on OTC status (cited by 12%).

OTC space allocation

Asked whether the space allocated to OTC products had increased or decreased over the past year, 43% said store space had increased an average 18.4%. Only 5% reported a decrease. Fifty per cent said there had been no change.

The survey revealed that more chains have increased space for OTC than independents. The increases have also been bigger for the chains.

Half of the chains surveyed said space was increased an average of 21.6%, compared to 37% of the independents polled, who said their shelf space increased 14.5%.

More than half (53%) of the independents reported that OTC shelf space had remained the same, and 10% said it actually decreased. None of the chains reported a decrease, while less than half (47%) of the chains reported no change.

If FDA decontrolled Rx advertising

WASHINGTON — What would the world of U.S. pharmaceutical advertising be like if there were no Food and Drug Administration?

Free marketplace controls would effectively take over for F.D.A. regulations, but at a financial cost to pharmaceutical manufacturers, according to Thomas K. Beckett, marketing communications director at Merck Sharp Dohme, who posed the question at a recent Food and Drug Law Institute seminar.

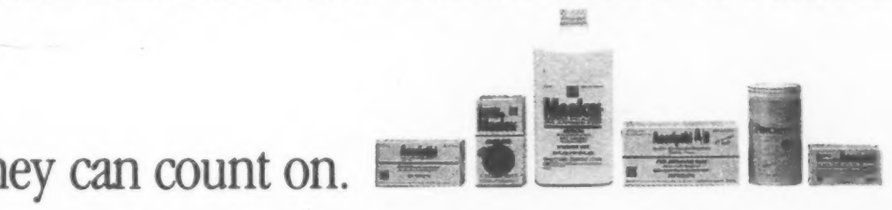
Claiming that product liability concerns are already more important than the threat of F.D.A. regulatory action, Beckett said design and approval liability would be "the single most influential moderating element" in Rx advertising if there were no government ad controls.

Other potential free market controls would be the "sophistication" and "healthy skepticism" of health care professionals, "the commercial value" of company credibility and integrity, the likelihood that competitors would exploit false claims, and the personal integrity of pharmaceutical marketing personnel.

On the other hand, Beckett warned, eliminating the F.D.A. drug advertising division in favor of free market forces would be financially costly for the pharmaceutical industry. While "mistakes in judgment" would be exposed and corrected by the free market process, pharmaceutical companies could lose customer credibility and business during the process, and might face expensive litigation via consumer product liability suits or Lanham Act proceedings by competitors.

The F.D.A. Division of Drug Advertising is serving pharmaceutical industry interests "whether we like to admit it or not," Beckett said.

R&R

Relief and Rorer. The name millions of consumers turn to every day for relief they can count on.  Relief they know they'll find on your shelves. The complete Maalox® line - America's #1 antacid. Ascriptin® Physicians' #1 aspirin brand. Perdiem® bulk laxative, America's fastest growing drugstore brand and all the other products that make the name Rorer synonymous with relief.

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Circle #034

LaVerdiere's moves to fill management board vacancies

WATERVILLE, Me. — LaVerdiere's Super Drug Stores has made changes in the executive board that reports to president Stephen J. LaVerdiere.

The moves fill vacancies on the senior management board created earlier this year when LaVerdiere assumed the presidency and MIS head Paul Page left the 58-store chain.

Jeffrey R. LaVerdiere was promoted to vp-management information systems, replacing Page, after serving the past two years as assistant vp-MIS.

Samuel S. Dahlquist was promoted to assistant vp-pharmacy operations, regarded as the top pharmacy spot in the company, after serving as head pharmacy supervisor since 1981. He will fill the function left by Stephen LaVerdiere, who was vp-professional services until his own promotion in February.

John A. McDonald

Donald T. Deschaine

In addition, John A. McDonald was promoted to senior vp-finance and Donald T. Deschaine to senior vp-store operations.

The board now includes Michael LaVerdiere, executive vp responsible for purchasing, advertising, distribution and the arcade division; McDonald; Deschaine; Jeffrey LaVerdiere; Bruce Carrier, vp and corporate counsel; and Dahlquist.

Pay 'n Save's new ceo walks tightrope

Continued from page 1

man, signaled further adjustments when he said that because the public is asking for better quality—while still eager for bargains—promotional merchandise is being upgraded and price points raised.

Chain of command

In Pay 'n Save's chain of command, Nathanson will have the responsibility for day-to-day operations and Zimmerman will be responsible for overall operations—especially imports, where Zimmerman's longstanding international contacts have resulted in exceptional buys.

Nathanson enters the Pay 'n Save fold with a reputation as a strong leader. His merchandising career is rich.

Much of his career has been with Montgomery Ward affiliates. From 1967 to 1976, he was senior vp-operations, senior vp-merchandising and subsequently president and ceo of Jefferson Stores, which was sold to Montgomery Ward in 1973.

From 1977 to 1978, he was president and ceo of J. M. Fields, the general merchandise subsidiary of Food Fair. After a stint as vice-chairman of United Department Stores, he was named chairman and ceo of Jefferson Ward, a Montgomery Ward subsidiary that closed at the end of 1985. After Jefferson Ward—and continuing into 1986—he was vice-chairman of McCrory Stores.

Experience in departments

Nathanson has had experience in H&BA, OTC and pharmacy because he ran those departments at Jefferson Stores. "They were major departments, and we did a big business," he told *Drug Store News*. "I learned enough so that when I took a look at Pay 'n Save, I could see the tremendous underlying strength of those departments."

The crucial question at Pay 'n Save is: Will Nathanson be able to avoid the fate of Culver, his predecessor? Culver, with many years of drug store experience—and acclaimed in the trade as a "merchandising genius—believed in strong drug departments and felt that too much Zimmerman-type merchandise would erode the drug store's basic function and result in reduced traffic and lower volume.

Zimmerman's philosophy—at least in the beginning—boiled down to: "Who needs a drug store?"

Views clashed

The long and short of it: Zimmerman wanted more space for promo merchandise ("the heart of Pay 'n Save," according to Pay 'n Save ads), while Culver wanted more space for drug departments.

Culver admitted to intimates one other source of irritation: that he was working under extreme tension because he was in the middle of continuing conflict between partners Julius Trump and Zimmerman. The nature of the conflict is not known.

So Nathanson has his work cut out for him. He rates high on the "personality" scale. He has a friendly manner, but he is also resolute in purpose; he gets things done.

He will have to get them done fast, because Pay 'n Save is losing money—$23.6 million in the first nine months of the current fiscal year.

Cleaner's fast turnover pulls traffic

Continued from page 3

where shoppers are prone to impulse buy other than full margin 35%-45% margin housewares products.

Merchandising strategy

Marvin Gresham, president of Gresham Drug in Florida, said he keeps household cleaners in their everyday permanent housewares display area, even when on promotion,in order to draw shoppers to the center of his stores. "We find a big turnover in apartment buildings near our stores. People have an ongoing need to buy and replenish these cleaning items," Gresham said.

That merchandising strategy has been one factor that has helped drug stores step closer to the third ranking, held by department stores with a 10% share of housewares business.

The survey indicated further that retailers are buying housewares direct more and more often, continuing a long-term trend. Manufacturer sales to retailers accounted for 86% of their volume in 1985, with just 14% going to distributors. That compares with an 81%/19% ratio in 1980 and a 60%/40% ratio in 1972. One has to look back to 1969 to find the last time that sales to distributors outpaced sales to retailers, by a 51%/49% ratio.

Excess inventories

The survey, conducted for NHMA by B. Angell & Associates, didn't explain why the dominant discounter share slid by four percentage points. But many discount department store chains were caught with excessive inventories following an unexpectedly weak 1984 Christmas season. They spent the first few months of 1985 working off stocks, often at deep markdowns that helped to spawn a more cautious buying approach through 1985 and 1986.

Drug stores, on the other hand, weren't caught as badly, and were able to buy at more natural levels, balanced to their needs, than discounters since early 1985. Drug store operators recognize their stores aren't the first choice for housewares purchases, so they needn't be as deep or broadly selected in the category as discounters.

Speaking of today's mandate to cut expenses, drug retailers "would rather risk being out of stock than have to take markdowns," Vanecek said.

DRUG MART

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The best place to find the best people.
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C5150-2

REX Awards: Detailed report on the winners—p. 13

C.E. Lesson: Calcium channel blockers—p. 33

Merchandising Trends: Retailers develop private labels—p. 23

DRUG STORE NEWS

Vol. 8/No. 25 **Serving chains, wholesalers and high-volume independents for 57 years.** Published by Lebhar-Friedman Inc. November 24, 1986

Revco takes LBO finance plan to SEC

By Dave Vaczek

TWINSBURG, Ohio — Revco management has filed a proposed notes and securities offering with the S.E.C. that details planned financing for the $1.25 billion leveraged buyout.

Anac Holding Corp., and Anac Merger Corp., the companies formed by a management-led team to take over Revco, filed the registration statement Nov. 6.

The filing snuffed a rumor that surfaced a week earlier that the financing for the deal was in jeopardy. It led to a slight dip in Revco's stock price, but the stock rebounded and closed at 36⅞ on Nov. 6.

Deadline pressure

Analysts said Revco management is under strong pressure to complete the buyout by Dec. 31, in order to retain advantages of the current tax law, which will be eliminated in 1987. By completing the deal this year, management would be able to retain significant benefits from an expiring tax provision, under which acquiring companies can write up the stated value of assets and thereby boost cash flow from higher depreciation credits. Also, the buyout group and Revco shareholders will incur stiffer capital gains taxes on profits stemming from the sale if it occurs next year.

*See **Revco**, page 7*

Revco management details financing

Note sales:
- $400 million of Anac Merger senior subordinated notes
- $225 million of Anac Merger subordinated notes
- $75 million Anac Merger junior subordinated notes

Stock sales:
- 6,650,000 shares of Anac Holding cumulative exchangeable preferred stock
- 300,000 Anac Holding common shares

Also:
- 300,000 common stock puts of Anac Holding
- Private placement of convertible preferred stock by Anac Holding
- Bank financing

Pay 'n Save's Jenkins out; chain beset by fiscal woes

Ex-president's departure follows Culver exit

SEATTLE — Maynard Jenkins, president and coo of the 140-store Pay 'n Save drug chain, has resigned to become president of Orchard Supply Hardware, a 20-store operation owned by Wickes Cos.

Jenkins' exit from Pay 'n Save follows by several weeks the resignation of Al Culver, vice chairman and ceo. William Zimmerman remains as chairman.

An inside source says that Jenkins, who joined Pay 'n Save a year-and-a-half ago, was frustrated by Pay 'n Save's sagging fortunes. Pay 'n Save has a net loss of $23.6 million on sales of $384.3 million for the nine months ended Aug. 2.

'Offered good opportunity'

Jenkins denies that's why he left. "I was offered a good opportunity in California to run a company," he told *Drug Store News*. "I am a hard goods merchandiser at heart." He had been vp-gmm hard lines at Gemco.

Yet other sources believe that Jenkins' departure is tied to Pay 'n Save vice-chairman Gerald Nathanson. "Nathanson cleaned house when he joined McCrory in 1985. I'm wondering if the same thing isn't happening at Pay 'n Save," said one.

DC, Zimmerman factors

An insider says that Jenkins' frustrations were centered on two interwoven aspects of the Pay 'n Save operation: distribution facilities and Zimmerman-type merchandise.

Pay 'n Save spent $4.4 million during the six months ended May 3, 1986, to upgrade its 350,000-sq.-ft. distribution center. The highly automated

*See **Pay 'n Save**, page 38*

Offbeat convenience for Twin Cities

Will gas/Rx mix for Super America?

MINNEAPOLIS — A new prototype that links a gas station with a pharmacy is lending a new meaning to convenience shopping in the Twin Cities.

Super America, the gas pump and convenience store chain, has installed a pharmacy and drug store merchandise in 3,500 sq. ft. of a 10,000-sq.-ft. prototype that opened in September in nearby Roseville. Two more are under construction in Burnsville and Moundsview. The Ashland Oil subsidiary plans to roll out 10 to 12 such units in the suburbs in the next three years, said Michael Rasnak, the director of pharmacy and manager of H&BA.

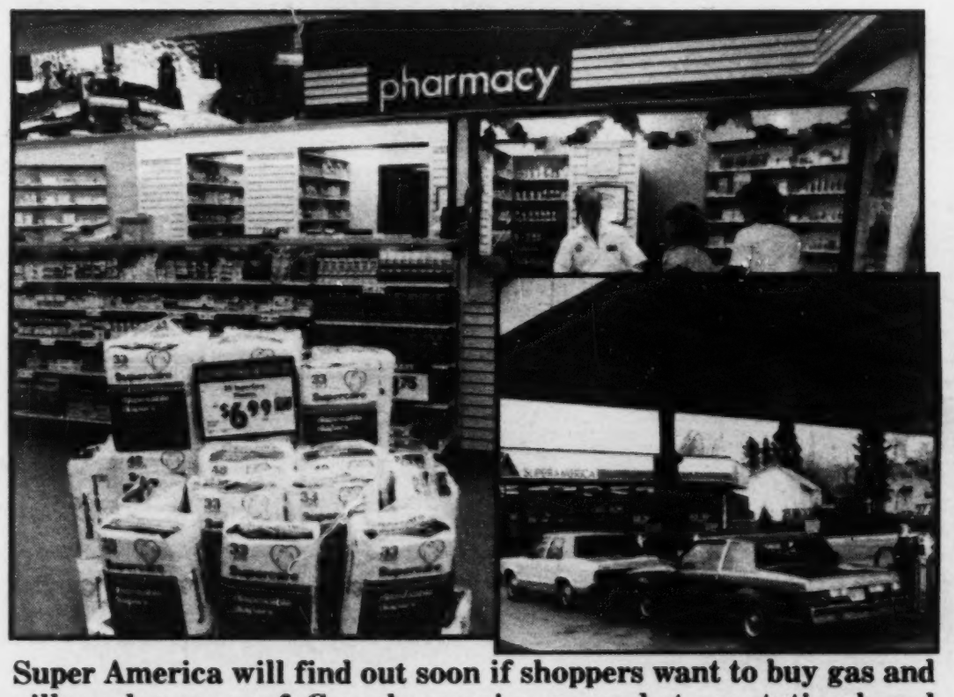
Retail industry observers say that no chain in the country has experimented with the gas station-pharmacy combination, and only two convenience store chains have installed pharmacies.

Quick Chek, a convenience store chain in White Horse Station, N.J., and Farm Stores of Edison, N.J., which operates units under the Krauszer's name, both have limited pharmacy rollouts in their convenience stores, retail observers said.

Rasnak said in researching the format he uncovered only a handful of single-store independents who combine the three retailing ventures of convenience store, gas station and pharmacy.

"Prescriptions are a con-

*See **Super America**, page 38*



Super America will find out soon if shoppers want to buy gas and pills under one roof. Can pharmacies succeed at gas station-based convenience stores?

FoxMeyer's big new DC signals West Coast push

By Lou Karney

DALLAS — FoxMeyer will make its long-awaited full scale invasion of the West Coast when it opens a 210,000-sq.-ft. distribution center (including 45,000 sq. ft. of mezzanine) in Ontario, 45 miles east of Los Angeles.

The DC will be completed in phases, starting in mid-December, with the final phase set for early February 1987.

What prompted the new DC, which FoxMeyer calls a "supercenter," was the acquisition of Devco Medical Industries in Santa Fe Springs, Calif., in May 1985. Devco, a distributor of hospital supplies, will be fused into the new DC as one of three separate entities. Hospital supplies will occupy 100,000 sq. ft., including Pro-Pac, FoxMeyer's manufacturing division, which makes customized hospital patient kits. Pharmaceuticals and OTC will occupy 45,000 sq. ft., and trucking, 15,000. The rest is for receiv-

*See **FoxMeyer**, page 38*

Eckerd builds Fla. base with SDM buy

CLEARWATER, Fla. — Eckerd is strengthening its presence in many Florida growth markets with its purchase this month of 32 Shoppers Drug Mart stores from Peoples.

The stores correspond in size to Eckerd's 8,000- to 10,000-sq.-ft. format and will build market penetration throughout the state: 18 units in Eckerd's southern and central Hollywood district; nine in the Clearwater, north and central district; and five in the central and eastern Orlando district.

"It's an ideal match for us," said an Eckerd spokesman. He said Eckerd will retain the stores' 480 employees. It will also keep the SDM store names through the Christmas selling season, while adding Eckerd banners.

Eckerd has already shipped its private label products to the stores. Otherwise, the stores "won't be significantly remerchandised," the spokesman said.

*See **Eckerd**, page 38*

Ogiba: Choosing P&G as OTC Market Maker See page 9

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NEWS IN BRIEF

Bergen Brunswig denies charges

ORANGE, Calif. — Bergen Brunswig, the nation's second largest drug wholesaler, has denied allegations made against the company and some directors in a class action suit filed in a California Federal court.

The suit alleges that Bergen violated Federal securities laws in issuing fiscal 1986 financial data.

Bergen's denial called the allegations "speculative and without merit." The company "expects to defend the action vigorously."

Ninth Bud's opens

POTOMAC MILLS, Va. — Peoples Drug has opened its ninth Bud's deep discount store—it's first in this area and the chain's first without a pharmacy.

The store is 36,000 sq. ft., at the upper size range of Bud's. Besides four Bud's in the greater Washington area, the chain also operates in Ohio and Indiana.

Walgreens eyes Twin Cities expansion

MINNEAPOLIS — Walgreens is creating a stir in the Minneapolis-St. Paul market by aiming for 29 units by the end of 1987, up from 24 currently.

The chain broke ground for three additional stores last month, two in downtown Minneapolis and a third in the Coon Rapids suburb.

Walgreens has climbed to about 18% market share in recent years, the second largest slice of the metro pie behind Snyder's Drugs, which has 30% plus, according to retailer estimates here. Since the Twin Cities population has stabilized and created a somewhat flat market, observers expect Walgreens' activity to instigate pricing battles.

A company spokesman said Walgreens will open a total of five new units by the spring of 1987.

Alco Health Services names Kennedy ceo

VALLEY FORGE, Pa. — Alco Health Services has named chairman John H. Kennedy to the additional post of ceo.

Under Kennedy's chairmanship the past 16 months, Alco has grown rapidly, in part through acquisitions, and has virtually tied FoxMeyer in size to become the nation's third largest pharmaceutical wholesaler.

He had been with former parent Alco Standard before joining Alco Health Services.

Durr-Fillauer net, sales up in 3rd qtr.

MONTGOMERY, Ala. — Durr-Fillauer Medical reported gains in revenues and net income during the third quarter and nine month periods ended Sept. 30.

Quarterly revenues rose to $123.7 million, up from $109.4 million in the comparable period a year earlier.

Net income rose similarly in the quarter, to $1.6 million, up from $1.3 million in the same year-ago period.

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Vol. 8, No. 25 November 24, 1986

Perry hires vp-marketing

PONTIAC, Mich. — Perry Drugs has hired its first vp-marketing for its drug store division—a 34-year-old woman with earlier experience as a merchandise manager at Osco Drug.

Betsy Burton, who will report directly to drug division president Mickey Kole, will be responsible for "creating the total market image" for the chain, a company source said. That includes store design, merchandise offerings and presentation, and advertising. The vp's of merchandising and advertising will report to her.

The appointment places Perry among a handful of chains who have developed a strict marketing function.

In the past, Allan Klein, who left Perry more than a year ago, assumed many marketing functions for the drug store segment, while also running the auto parts division.

Burton joined Osco after obtaining an M.B.A. from the University of Chicago. She worked her first two years at store level, then was promoted to merchandise manager for H&BA and appliances.

In 1982, Burton was named president of the Bee Discount subsidiary of Victory Beauty Systems, a wholesale and retail company in the beauty salon industry.

Lucky sells prescription files from 80 closed Gemco stores

Sav-on, Pay Less NW and Longs buy

DUBLIN, Calif. — Lucky Stores revealed to *Drug Store News* how it is disposing of the prescription files in the 80 Gemco stores it will close by year-end.

Of the 80, 26 pharmacy files were sold for undisclosed sums to three chains: 15 to Sav-on, which operates in California, Arizona and Nevada; seven to Pay Less NW in northern California; and four to Longs, including two in southern California and two in northern California.

Another 22 are being transferred to existing pharmacies in Lucky supermarkets, and 26 will be moved to new pharmacy departments to be built inside existing Lucky supermarkets in California.

The fate of the remaining six is still unresolved.

Reasons for Sav-on edge

The Sav-on division of American Stores topped Pay Less and Longs in the numbers for two reasons:

- Sav-on has the most drug stores in southern California except for Thrifty, and when Thrifty declined to bid, Sav-on moved to the inside rail.
- Sav-on is believed to have had an edge because Sam Parker, president of Gemco, was former president of Sav-on.

Meantime, the president of a small southern California independent chain told *Drug Store News* that Lucky "froze us out. I phoned Lucky repeatedly, but they did not return my calls."

A drug wholesale exec evaluated Lucky's actions: "When [Asher] Edelman made his original offer to Lucky, Lucky . . . tried to fight him off with an influx of cash, so they sold Gemco. They didn't want to spend time dickering with independents on each pharmacy file; they sold them in groups because it was faster."

(Following Lucky's rebuff of Edelman's $37-a-share offer, Edelman purchased a 500,000 share block on the open market for $33.50 a share or $16.8 million that raised his holding from 3% to almost 5%, according to a *Wall Street Journal* report.)

Committed to pharmacy

The significance of Lucky's retention of 48 Rx files makes a cogent statement for Lucky's commitment to pharmacy. After the Gemco closeout, Lucky will continue to operate 79 pharmacies in Lucky supermarkets, which average 31,000 sq. ft.

Over the years, Lucky pioneered pharmacy-in-supermarkets and stayed the course, overriding the negative attitude of supermarket shoppers who were uncomfortable having scripts filled in a food store.

But Lucky's persistence paid off. It now does the best job of any supermarket chain in southern California, outpointing Albertson's, Safeway and Vons, market observers said. Vons are aggressive Rx marketers, but Lucky is also price-competitive and has more stores than Vons and more market penetration. Vons has 43 pharmacies in its Value Center and Pavilions combos.

In addition, Lucky has good locations. The result: Lucky fills more scripts than any other supermarket chain—200-300 scripts per day in some pharmacies.

One-stop shopping

Pharmacy is also striking a resonant chord for Lucky in the ongoing movement to one-stop shopping, because Rx offsets to some extent Lucky's tardy move to high-margin service deli, fish and bakery departments.

For more than 25 years, Lucky stayed with everyday low prices. In recent years, however, consumers—especially singles and two-career couples—voted for convenience, and Lucky wasn't moving strongly in that direction.

Rx has served as one of Lucky's first key entries into the one-stop concept.

Wal-Mart fuels dot growth by clustering stores

BENTONVILLE, Ark. — The way Wal-Mart is expanding its dot deep discount drug stores reveals how the retail giant will support the young chain with location and buying synergies among dot, Sam's Wholesale Clubs and Wal-Mart stores.

By opening four dots this year, Wal-Mart has raised its count to six: three in Des Moines, two in Kansas City and one in Wichita, Kan.

Wal-Mart hasn't made final any store growth plans for dot in 1987 or beyond, said Paul Carter, executive vp-special divisions. But the growth pace so far meets earlier stated plans and indicates that Wal-Mart is pleased with performance.

Dot will most likely expand where Wal-Mart or Sam's already operate—not so much for traffic, advertising or distribution efficiencies, but for familiarity. Ads and shipping are typically nonexistent concerns for deep discount drug operators, since ads rarely continue beyond grand openings and nearly all goods are drop-shipped to stores.

By clustering dots in target markets, Wal-Mart will "pick a market and try to dominate it by outstoring in this format," Carter said. That's the same way Wal-Mart has always approached new markets with its discount department stores.

Opportunistic buying

The dot chain will also probably benefit from Sam's ongoing experience in strict opportunistic buying. Carter told *Drug Store News* that "we'd certainly want to take a look at" tacking onto Sam's orders to gain volume discounts. The 100,000-sq.-ft. wholesale clubs sell large volumes of health & beauty aids.

At present, the dot managers order all merchandise for their stores individually, subject to "some centralized review of buying," Carter said.

Dot also has no current plans to test scanning—despite being a heavily sku'd high volume operation. Workers at the 25,000-sq.-ft. stores continue to price-mark all merchandise, Carter said.

That indicates the measured growth program that Wal-Mart apparently has for dot.

In a separate move in pharmacy, the Wal-Mart chain recently surpassed the benchmark of 500 stores with pharmacies, including about 80% company-owned and the rest leased, Carter said.

MERCHANDISING TRENDS

Private label and generic H&BA trends
(% share of $ sales in food stores)

Category	1980	1983	1985	Category	1980	1983	1985
Baby powders	10.31%	12.48%	12.57%	Laxatives	3.04%	3.36%	3.56%
Baby oils, creams, lotions	10.28	16.24	18.00	Synthetic vitamins	30.60	28.03	30.24
Roll-on deodorants	0.65	1.00	1.08	Internal analgesics	2.77	4.00	4.21
First aid products	11.75	15.31	16.80	External analgesics	23.58	25.37	25.64
Hair shampoo	4.35	4.43	3.65	Cough remedies	0.70	1.29	2.29
Hair spray	0.81	1.18	1.41	Cold tablets	1.42	1.50	2.05
Hair conditioning rinses	2.51	3.33	2.41	Razor blades	2.99	5.20	5.41
Toothbrushes	2.93	5.29	4.49	Hand and body cream, lotions	4.45	3.90	3.53
Mouthwash	2.64	3.78	3.97	Facial preparations	0.13	0.69	0.82
Appetite suppressants	—	1.81	1.43	Source: SAMI			

Private label H&BA share reaches 4%

NEW YORK — Private labels and generics accounted for 4% of total health & beauty aids dollar sales in food stores in the year ended July 18, 1986.

That level matched the 1982 peak in this category, reported Selling Areas-Marketing Inc. (SAMI) in a recently released report, *SAMI Analysis of Generic and Private Labels*.

The sales share of nonnational brands in H&BA had dipped to 3.9% in 1983 and to 3.7% in 1984, before stepping back up to 3.9% in 1985.

Still, these levels were well above the 3.3% recorded in 1980.

Increase in share

Today's 4% level represents a 21% increase in share from 1980. In 1980, private label accounted for 3% of the 3.3% nonnational brand H&BA sales in food stores; generics made up the 0.3% remainder. Today, private label accounts for 3.4% of the 4% total; generics, 0.6%, or double its level of six years ago.

The private label and generic gains made in H&BA ran counter to trends in the vast majority of 231 product categories tracked by SAMI since 1980.

After private labels and generics peaked in 1982 at 16.8% of all food store sales, the trend reversed rapidly in virtually all categories. A continuous slide since then caused the private labels/generics share to skid to 13.6% today, the report said.

Private labels took the brunt of the dollar sales slip, sliding from 14.4% in 1982 to 12% currently. Generics fell from a 2.4% share in 1982 to 1.6% currently.

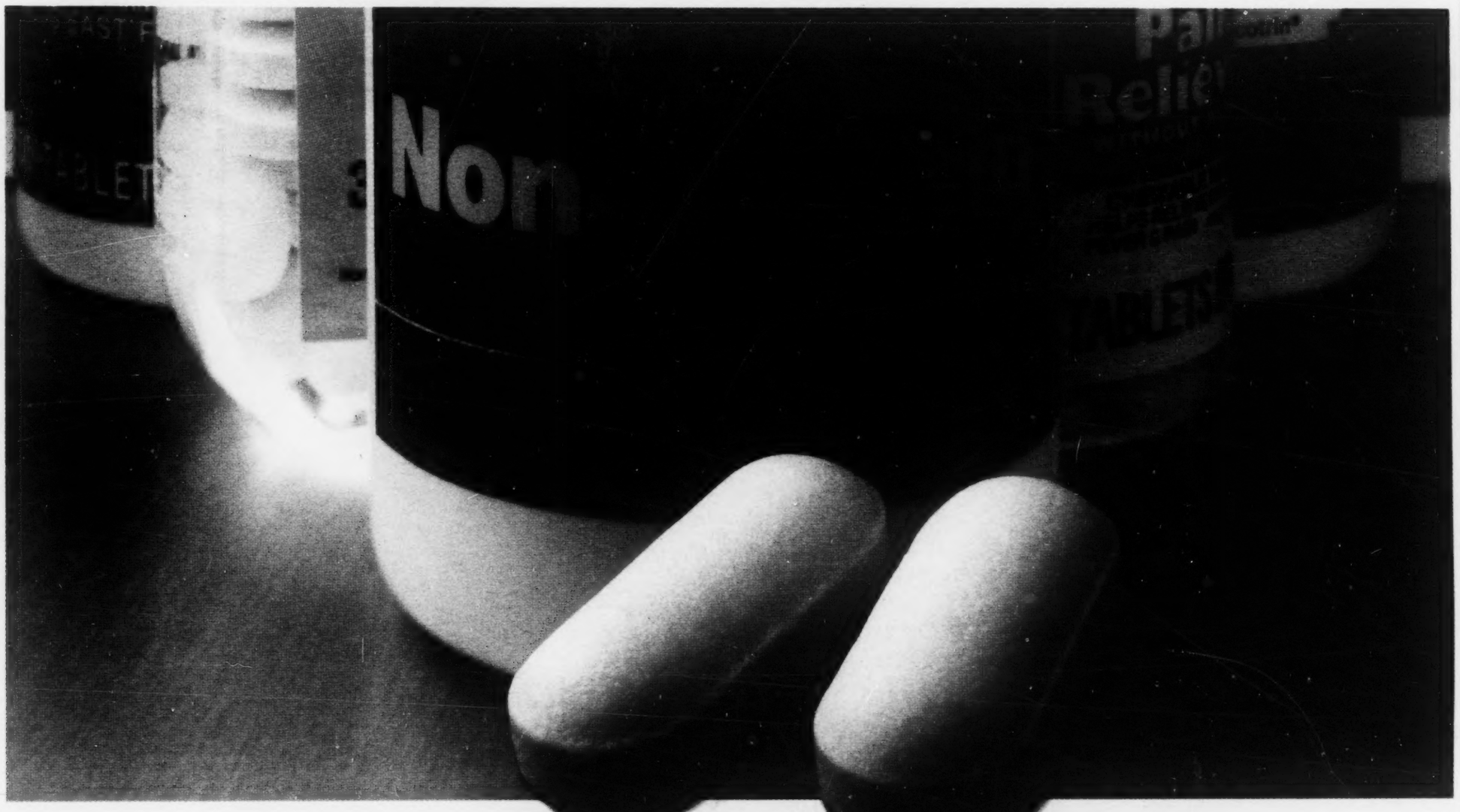
Reasons for decrease

Stating reasons for the slides, Alan B. Miller Jr., SAMI vp-sales services, noted "the easing of inflation in 1983 and ever-increasing issuance of price-off coupons offered by retailers as well as manufacturers. Take away the price advantage and most consumers will choose an advertised brand."

Besides the comeback in H&BA, private label and generic growth appeared in such commodity products as powdered milk, granulated sugar, dog and cat food, coffee filters and paper and plastic plates, the study showed.

Category breakdowns within H&BA show a mixed bag of upturns and downturns between 1982-1985. Among them:

- Baby oils, creams and lotions, up from 14.34% to 18%.
- First aid antiseptics, up from 9.93% to 11.18%.



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Stool Softener Capsules with or without laxative can now also be put on the shelf under the Good Health logo.

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Demographics alter business, execs told

CHICAGO — Demographic changes over the past decade are having a profound effect on today's chain drug store business, as service becomes more important than price.

In a talk given before several hundred chain drug store executives attending the NACDS Administrative/Operations Conference here, Dr. Bickley Townsend, director of the American Demographics Institute, said that today's consumers can be classified as a "two-tier society."

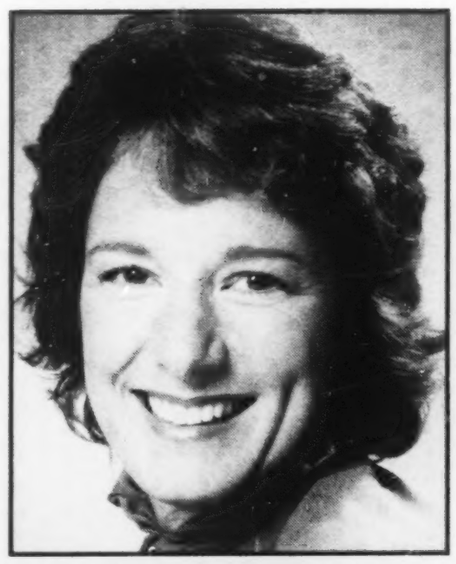
Losers and winners

"There appears to be a move toward a society of economic losers and winners with very little common ground between the two," said Townsend. "There are those consumers making good money with little time to shop and those with time to shop but cash-poor. Because of an increase in two-family incomes and other demographic factors, I believe that we are starting to see, and probably will continue to see, chain drug stores cater more to those individuals who are earning more money with little time to shop."

She said this translates into the chain drug store offering increased services.

Townsend cited many factors she believes are responsible for consumers' changing attitudes.

Of primary importance is that the baby boomers have grown up. "The median age of our population has risen from 28 in 1982 to 36 in 1986; therefore, there are more people in the workforce than ever before," she said.



'Service is an old-fashioned idea that's coming back in style.'

—Dr. Bickley Townsend
American Demographics Institute

Additionally, Townsend pointed out that there is more

See **Demographics,** *page 28*

Drug chains back NACDS on modified CIP

WASHINGTON — Chain drug store companies rallied around the National Association of Chain Drug Stores' plan to overhaul Federal Medicaid drug reimbursement rules.

Officials from more than half a dozen major drug chains, as well as several smaller pharmacy operations, detailed their support for the NACDS plan—a variation on the Health Care Financing Administration's pro-generic "Competitive Incentive Program."

Under the NACDS proposal, Medicaid would reimburse drug stores at marketplace prices capped at the 90th percentile for all products supplied by only one or two manufacturers. For drugs available from three or more manufacturers, generics would be reimbursed at full marketplace prices, and brand-name products at "usual and customary" prices capped at the 75th percentile.

Cost savings

"This approach, with the percentile cap, will continue to reinforce competition in the market, providing real program cost savings and positive incentives for providers," said Michael Zagorac Jr., Jack Eckerd Corp. vp-public affairs. "The retail pharmacy marketplace should be at the top of H.C.F.A.'s list to put competition into the Medicaid drug program," he said.

Michael W. Simpson, president of the 10-store Drug-Sav discount chain in Tyler, Tex., echoed Eckerd's emphasis on

See **CIP,** *page 29*

Pay 'n Save Seattle pharmacists settle

SEATTLE — Settlement terms of the seven-week strike of Pay 'n Save pharmacists in Seattle will undoubtedly set the pattern for other Pay 'n Save regions where negotiations with the Guild for Professional Pharmacists are continuing.

These include 40 Pay 'n Save stores in the rest of Washington, 29 Bi-Mart drug stores in Oregon and two Pay 'n Save stores in Idaho.

Two major issues precipitated the strike: wages and sick pay.

Settlement terms

Under the terms of the settlement, staff pharmacists went from $15.90 to $17.50 an hour for three years ending October 1989, and head pharmacists from $16.20 to $18.25 over the same period.

The union's goal was $19.25 (staff) and $19.75 (head) so that Seattle pharmacists would have parity with Portland pharmacists.

A wage-related issue was the retention of overtime after eight hours per day. Pay 'n Save wanted overtime to begin after 40 hours per week. On this issue, the union prevailed.

As for sick leave, the guild first tried to equalize with southern California pharmacists whose contracts (with both the guild and the United Food and Commercial Workers) specify six days per year. Rejected by Pay 'n Save, the guild tried for three days—but came up empty-handed.

The guild also tried for a guaranteed break period during each shift, but was rebuffed. Pay 'n Save has no chainwide policy on breaks, but instead relies on the discretion of each store manager.

Apart from the strike—but with implications for future bargaining—is the breakup of multibargaining by UFCW with major chains. That came

See **Pay 'n Save,** *page 28*

PMA slams all 3 H.C.F.A. Medicaid plans

WASHINGTON — The Pharmaceutical Manufacturers Association and several individual drug companies attacked Federal Medicaid drug reimbursement plans, calling them "cumbersome, unnecessarily complex and vaguely defined."

Urging the Health Care Financing Administration to scuttle all three proposals, PMA president Gerald J. Mossinghoff said Medicaid should improve administrative practices and rely on competitive marketplace forces to achieve savings.

"Drug claims under Medicaid represent 8% of the Medicaid budget, but involve an estimated 50% of its red tape and paper-

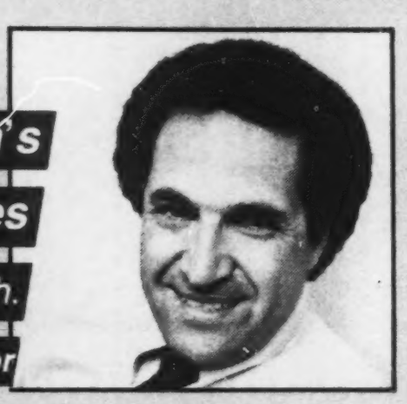
See **PMA,** *page 28*

Computer exhibits open new vistas for pharmacy

Cohen's Capsules

Harold Cohen, R.Ph.

Pharmaceutical Editor



I've always been a collector of gadgets, especially of the electronic kind. That's why when computers arrived on the pharmacy scene, I was one of the first to look at them.

Even though those first pharmacy computers had limited memory and took up a lot more space than today's models, for me it was love at first sight. I knew that if I was going to be successful in retail pharmacy, a computer would have to share the limelight. And to think that was a mere five or six years ago.

We've come a long way from the mini-computer with 64K of memory. Most of today's systems pack at least 10 times that memory into a computer cabinet aptly called a "micro," sometimes as much as a quarter the size of the original pharmacy systems. And most operate with the speed of a blinking eye. Even with all of today's sophisticated technology becoming rather commonplace, I'm still impressed with the computer's power every time I use it.

I guess that's why I came away from this year's NACDS Administrative/Operations Conference, recently held in Chicago, shaking my head in amazement over what I saw. If today's pharmacy operation, chain and independent alike, is having trouble competing in its market, it can't be blamed on a lack of technology.

Walking up and down the rows of exhibits, I was drawn to pharmacy computer systems that offered far more than keeping patient profiles and typing labels.

For instance, one system hooked up a voice synthesizer with an automatic dialer. The computer will automatically "look" in its refill files for prescriptions coming up for renewals and call customers to remind them. The best part is that it's done while you are still filling prescriptions.

The system doesn't stop at refills, either. You can actually "program" the computer to call your customers in an orderly fashion (alphabetically, by zip code, etc.) and give them sales messages. Not only is today's pharmacy system a terrific help in filling prescriptions, it has become a first-class marketing tool as well.

Other vendors were showing off high-tech pharmacy software programs that allow pharmacists to price product on their shelves automatically, based on an overall gross profit projection for a particular department while keeping selected products within that department competitive with the marketplace.

And how about those point-of-sale systems with scanning options that hook up the pharmacy computer with electronic cash registers to keep running inventories.

Or how about databases that instantly cross-check patient profiles for drug interactions and possible allergic reactions.

The list goes on and on. And you wonder, what's next? Whatever technology is ahead, I believe it will continue to make the pharmacy profession a better profession for both the pharmacist and the consumer.

PMA rips H.C.F.A. on Medicaid plans

Continued from page 27

work," he charged. "Each of the three proposals can only exacerbate that situation."

H.C.F.A. alternatives under fire include:

- Pharmacists Incentive Program—Payment of 150% of the lowest advertised price plus a dispensing fee for a multisource drug, and payment of the lower of the pharmacist's acquisition price or the "usual and customary" cost plus dispensing fee for a single-source drug.
- Competitive Incentive Program—Payment of the price a pharmacist charges the majority of private retail patients less an arbitrary "pro-generic" discount.
- Revised Maximum Allowable Cost Program—Streamlined version of the current Medicaid drug reimbursement scheme.

According to the pharmaceutical manufacturers, all three plans ignore current marketplace trends, which are already reducing Medicaid prescription drug costs.

Studies cited

Kenneth P. Berkowitz, Hoffman-La Roche assistant vice president, told Federal planners that independent studies funded by the company indicate the H.C.F.A. will exceed its goal of $38 million savings "without undertaking any further regulatory initiatives." According to one study, he said, "market forces" (i.e., an upsurge in generic competition) will reduce Federal and state Medicaid drug costs by $324 million from 1986 through 1990.

In addition, the pharmaceutical manufacturers voiced concerns about promoting generics without sufficient regard to bioequivalence.

'Controversial assumption'

"All three proposals are premised on the controversial assumption of therapeutic interchangeability among generic and pioneer (brand name) drugs, an assumption that the Food and Drug Administration is just now, and rightly, re-examining," said Edgar G. Davis, Eli Lilly vice president.

Industry officials further argued that the H.C.F.A. plans "fly in the face" of the Reagan Administration's "free market goals."

In addition, the Federal rule making will be needlessly burdensome to state agencies that are already developing cost-containment devices, contended Timothy Russell, McNeil Pharmaceutical vice president. Pfizer officials cited Alabama's improved drug claims processing program, designed to save Medicaid more than $51 million in 1987.

Finally, Eli Lilly warned, savings analyses of H.C.F.A.'s plans "did not assess, or even consider," the adverse effect on the public of reduced funds for drug manufacturers' research.

Projected medicaid savings from expanded generic drug availability

Year	Estimated expenditures ($ millions)	Savings relative to '85 expenditures ($ millions)	Per cent
1985	$555.37 (Base Year)	—	—
1986	546.99	$ 8.38	1.5%
1987	530.71	24.46	4.4
1988	494.73	60.64	10.9
1989	455.77	99.60	17.9
1990	424.39	130.98	23.6

Total Savings: $324.06

Prepared by Pracon Incorporated for Hoffman-La Roche Inc.

Pay 'n Save pharmacists in Seattle reach settlement

Continued from page 27

about with the NLRB election of April 1986. After that election, Bartell pharmacists voted "nonunion," Fred Meyer remained with UFCW and Pay Less and Pay 'n Save opted for the guild.

"What this has done," said Ralph Vogel, guild president, "is to open competition on pharmacy wages in a region where there is a shortage of pharmacists."

A Pay 'n Save pharmacist in Seattle saw it differently. She said: "Under a single contract, pharmacists are in a better bargaining position because if everyone is on strike, then chains would have trouble filling prescriptions."

Demographics seen affecting chain business

Continued from page 27

household diversity as women enter the workforce in large numbers.

According to Townsend, working, childless couples, because of their full-time jobs, are demanding more service and are willing to pay for it.

"Service is an old-fashioned idea that's coming back in style," said Townsend. "Many working people are willing to trade waiting in lines for service."

Townsend said if retailers are to remain successful, they must pay close attention to these services.

Some of the services consumers are looking for include convenience of location, delivery service and convenient store hours.

"Working couples shop in the late afternoon, early evening and weekends," said Townsend. "Most stores today will stay open late to accommodate them. The ones that don't will lose that business."

But because of a shift in the labor force, chain drug stores may be hard-pressed to find enough entry-level employees to fill positions needed to boost service, she said.

"Because of the decline in the birth rate in the 60's and 70's, the so-called 'baby bust,' the number of young people entering the job market today is smaller than it was 19 years ago. But the real impact of that baby bust is yet to be felt."

According to Townsend, by 1995, the labor force will have lost some seven million 18- to 24-year-olds.

Commenting on Townsend's presentation, NACDS president Bob Bolger said the chain drug industry must identify their markets and "go after them."

"Not all of [the chain drug stores'] market areas are going to be frequented by customers who are willing to pay for extra service," said Bolger. "Some will fall into the second group of consumers, those that are cash-poor and willing to sacrifice service for discounts. In those markets, the chain drug store will have to give that group what they want as well."

Bob Bolger

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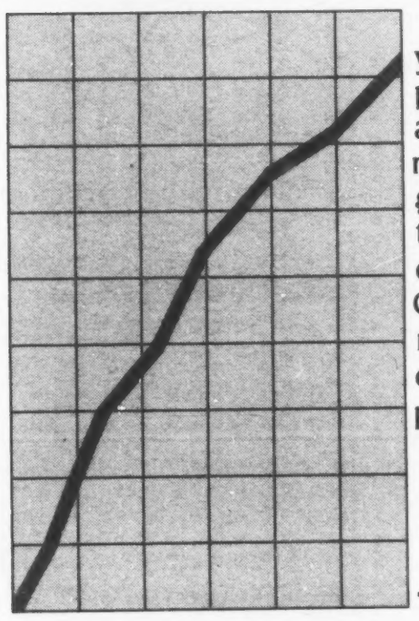

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DRUG STORE NEWS

Vol. 8/No. 26 **Serving chains, wholesalers and high-volume independents for 57 years.** Published by Lebhar-Friedman Inc. December 8, 1986

Special Report

The Billion-Dollar Club

A billion dollars.

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Billion dollar sales aren't any fun if enough profits aren't produced. Or if another heavyweight chain takes over some weaker competitors in your markets. Or operating improvements aren't paying back as quickly as you'd anticipated.

Coverage of the 10 largest drug chains in the U.S.—each with more than $1 billion annual sales—continues in this issue, exposing their highlights and describ[illegible] reasoned analysis.

Continued on page 24

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NEWS IN BRIEF

Big B continues store-opening pace

BIRMINGHAM, Ala. — Big B continued its blistering store opening schedule with 11 new units in the 12-week quarter ended Oct. 25, but slipped into the red in the period.

The 158-store chain reported a loss of $65,000 as compared to a profit of $668,000 in the previous year. Sales for the quarter increased 22% to $47 million from $38.5 million.

Apart from the rapid store opening schedule, the company blamed a decrease in gross margins and the loss of investment tax credits for the loss.

For the 38 weeks, earnings declined slightly to $2.7 million from $2.9 million, and sales were up 21% to $147 million. Big B has opened 25 stores since the start of the year.

Begley reports on 2nd quarter

RICHMOND, Ky. — Begley Co. announced a loss of $85,930, or 15¢ a share, for the second quarter ended Sept. 30, compared with a loss of $98,199, or 18¢ a share, in the same period last year. Sales for the quarter were up slightly to $17.6 million from $17.3 million.

Six-month earnings were $25,441, or 5¢ a share, vs. $131,191, or 24¢ a share, a year earlier. Sales for the period were $35.4 million, a gain of 2.3%.

Begley operates 42 drug stores, six home health care centers and 130 dry cleaning outlets.

Peoples names optical division vp/coo

ALEXANDRIA, Va. — Peoples Drug Stores has promoted Jerry Mederrick to the post of vp and coo of the optical division, which includes Eye City and 58 in-store optical centers.

The chain plans to expand Eye City to three units eventually. It is a self-service eyeglass store twinned with an optometrics center and lens manufacturing lab.

Mederrick, as former director of optical operations, was responsible for the Eye City design and many of Peoples' optical procedures.

Moore Medical earnings, sales up

NEW BRITAIN, Conn. — Moore Medical Corp., a national distributor of drugs and medical/surgical supplies, announced that earnings for the third quarter ended Sept. 26 increased 27.4% to $1.1 million, or 40¢ a share, from $881,000, or 36¢ a share, a year earlier.

Sales for the period increased 32.1% to $49.3 million from $37.4 million in the prior year.

For the nine months, net income rose to $3.3 million, or $1.16 a share, from $2.7 million, or $1.09 a share, a 20.4% gain.

Sales for the nine months were up 31.8% to $140.9 million from $106.9 million in the corresponding year-earlier period.

Jerald K. Rome, president, said the "encouraging increase in net sales can be attributed to a combination of a growing customer base as well as increased sales to the chain drug store market."

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Pay Less installs apparel in 51 units; plans growth

WILSONVILLE, Ore.— Pay Less NW has installed apparel departments in 51 of its 193 stores and expects to exceed 100 by the end of 1987.

Until May 1986, suppliers shipped apparel for Pay Less to a K mart distribution facility, where it was transhipped to Pay Less' temporary DC in Sacramento, Calif. When the Woodland, Calif., DC opens in January, apparel will be shipped there direct by suppliers.

"Even when K mart was shipping to us," Dan Barrett, Pay Less' general manager of apparel, told *Drug Store News*, "Pay Less did its own buying. We have three buyers in New Jersey and Detroit."

20%-25% imported

Barrett also noted that "while Pay Less orders merchandise from many of K mart's suppliers, we also order from other suppliers." Approximately 20%-25% of the inventory is imported.

Depending on the size of the store, apparel departments range from 4,000 sq. ft. to 12,000 sq. ft. Currently, apparel is being installed in stores 25,000 sq. ft. and larger.

However, size is not the only determinant. Explains Barrett: "The cost of advertising is also a factor. Let's say we have eight or 10 small stores [without apparel] in a given market, and then we open a store large enough to warrant an apparel department. We would not open an apparel department in the new store because of the high cost of advertising for a single store."

No set location

There is no standard location for apparel in the store. Depending on size and configuration, apparel is located up front, on the sides or in back.

Apparel departments in king-size stores (those 60,000 sq. ft. and larger) go as high as 12,000 sq. ft. The newest department, opened in February 1986 in the 16-year-old Richland, Wash., store (66,795 sq. ft.), is 12,000 sq. ft.

Other outsize departments include Oakland (Broadway), 10,000 sq. ft., and Castro Valley (Calif.), 8,000 sq. ft.-plus.

These three stores—with wider assortments and more depth in apparel lines than conventional-sized Pay Less (averaging 30,000 sq. ft.)—are being used to test higher-ticket items (to $30) as well as fashion merchandise, especially trendy California styles. Wherever possible, results of the ongoing tests will be reflected in the conventional-sized departments.

Infant apparel tested

Pay Less continues to test a full line of infant apparel in nine stores. The test began in April 1986.

Pay Less apparel departments include men's, women's and children's apparel and accessories.

At the outset, apparel advertising was in four-color (four- and eight-page inserts and mailers). Now some of the inserts-mailers are in black and white. Photos are used in 90% of the ads. Unchanged is the policy of not including apparel in Pay Less' regular drug store ads.

There are similarities to K mart apparel departments (price points) and differences (size and fixtures).

Both target low- to medium-income shoppers. K mart's apparel departments average 15,000 sq. ft. and use advanced finger-wall fixtures (wall displays with dividers separating the various categories). Pay Less fixtures are made of chrome, with four-way and six-way racks and with four to six arms extending from the posts anchoring the racks.

Amfac Health 'is not for sale'

President Whitmire quells rumors

FOLSOM, Calif. — Despite recurring rumors, Amfac Health Care Group is not for sale, Mel Whitmire, president of the group, told *Drug Store News*.

The rumors had taken wings after FoxMeyer announced plans to enter California as a full-line distributor.

The Food and Distribution groups (including Health Care) have been losing money, but most of the losses ($61.4 million in nine months) were attributed to the Electrical group, which closed 29 branches in Texas and Oklahoma.

However, Health Group's second-quarter loss was due largely to a $12 million warehouse computerization program and receding gross margins brought on by Health Care's emphasis on hospitals.

Amfac's hospital business has been fueled by $200 million one- and three-year hospital groups contracts.

All told, the Health Care Group will finish this year with sales of $553 million vs. $484 million last year. Amfac does not break out the profits by division.

Latecomers to electronic order-entry, Amfac moved quickly to catch up. Eighty per cent of orders are now on EOE.

Amfac's marketing strategy also has changed. For many years, the wholesaler was mainly a secondary supplier; now it is concentrating on being a primary source with quicksilver results: from 20% primary distribution in January 1985 to 50% today.

"With close to 100% fill rates by the primary supplier," said Whitmire, "there is a shrinking market for secondary suppliers."

Amfac Health Care operates in 37 states. Gaps in geography are the East and Southeast. "There are no plans to fill those gaps at this time," said Whitmire, "but within five years we expect to be national."

Management values shares at $38.50

Revco shareholders to vote on LBO offer

TWINSBURG, Ohio — Revco's leveraged buyout has turned into a cliffhanger, as management races to complete a shareholders' vote weeks before favorable tax clauses expire at year's end.

Revco shareholders will decide on Dec. 16 whether to turn the company over to a management-led investor group that has offered them $38.50 in cash for each of their common shares. Owners of a majority of the 32,450,000 shares outstanding must approve the sale.

The proposed $1.25 billion leveraged buyout entered the final lap when the S.E.C. endorsed proxy material that describes the proposed sale, it was sent to shareholders, and the vote was scheduled.

Revco closed Thursday, Nov. 20, on the New York Stock Exchange at 36⅝, up ⅝.

Announced eight months ago, the purchase appeared to lose momentum earlier this year, when the Revco board balked at the group's first offer of $33 per share plus securities valued at $3 per share. The group, led by Sidney Dworkin, chairman; Bill Edwards, president; and R. Carroll Hudson, cfo, upped the ante, and the board endorsed the current offer in August.

Last month the group detailed a notes and stock sale plan to finance the buy that quelled rumors that financing is in jeopardy.

Proxy material said management expects to complete the buyout by year's end, when analysts said it will still be eligible for significant tax benefits to be eliminated under the new tax code.

The proxy said that about 40 members of Revco management will become shareholders, along with other investors.

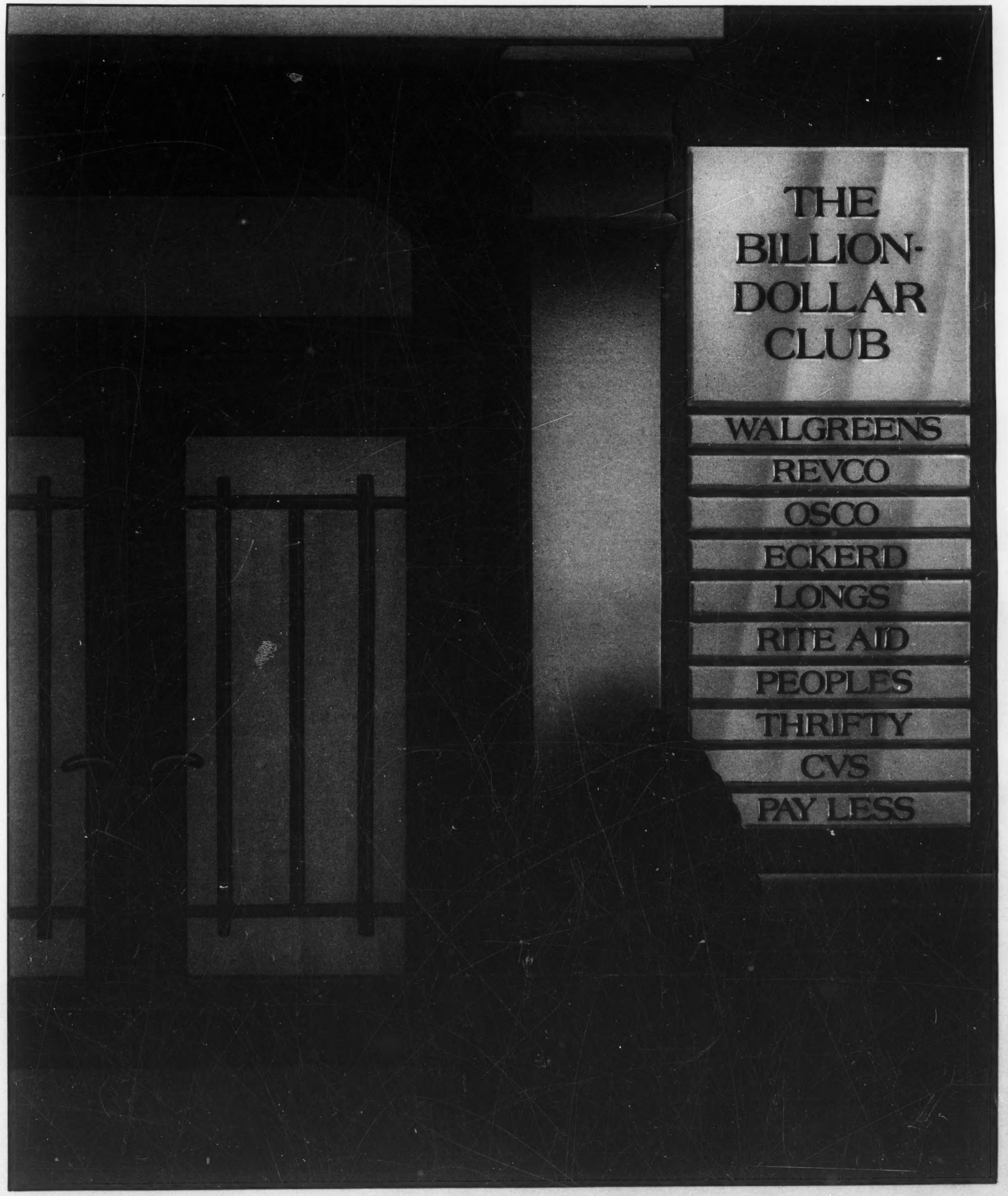
Negotiating sales

The proxy material also said that Revco is negotiating to sell its Carter-Glogau Laboratories and confirmed a *Drug Store News* report that it is preparing to close on the sale of its Private Label Formulations subsidiary.

DRUG STORE NEWS®

Special Report:

The Billion-Dollar Club



SPECIAL REPORT: BILLION $ CLUB

Billion-dollar chains mold the industry

Top of the Heap

(in millions $)

	FY end 1984	1985	1986
WALGREENS			
Sales	2,745	3,162	3,652
Net income	80.6	94.2	103.1
Stores	1,002	1,095	1,216
REVCO			
Sales	2,227.5	2,395.6	2,743.2
Net income	93.4	38.9	56.9
Stores	1,778	1,898	2,031
OSCO			
Sales[B]	1,150[C]	3,850[D]	4,780[E]
Operating profits[B]	60[C]	205[D]	216[E]
Stores	108[C]	354[D]	531[E]
ECKERD			
Sales	2,210	2,510	1,310[A]
Net income	85.4	(8.3)	NA
Stores	1,423	1,525	1,618
LONGS			
Sales	1,214	1,376	1,481
Net income	36.4	40.1	37.7
Stores	178	191	208
RITE AID			
Sales	$1,149.5	$1,360.5	$1,564.1
Net income	74.3	69.9	62.5
Stores	1,147	1,351	1,485
PEOPLES			
Sales	790[G]	1,030	1,330
Operating profits	29.3[G]	47.7	40.1
Stores	554[G]	758	832
THRIFTY			
Sales	1,299	1,404	1,501
Net income	27.9	31.9	25.0[F]
Stores	542	555	583
CVS			
Sales	876.6	1,017	1,169
Operating profits	74.2	79.0	NA
Stores	553	592	629
PAY LESS NW			
Sales	852.9	925.0	966.0
Net income	24.7	NA	NA
Stores	149	162	183

Source: *Drug Store News* research

A Six months results.
B Prudential-Bache estimates.
C Skaggs drug stores results.
D Skaggs and Osco results.
E Sav-on, Skaggs and Osco results.
F Full year net unavailable at presstime. This is net for the nine months ended 5/31/86, on sales of $1.1 billion.
G 1983 results. Performance for 1984 wasn't reported separately because Peoples was acquired by Imasco April 1, 1984 and the fiscal year was restated to reflect full year results. All Peoples results are in U.S. dollars.

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Among the 10 chains we profile here, some cleared the billion-dollar benchmark years ago. Others are fairly new.

In reality, being a billionaire doesn't change the way a chain operates, approaches problems or perceives itself. It does change the way others look at the chains—Walgreens, Revco, Osco, CVS, Rite Aid, Eckerd, Longs, Peoples, Thrifty and Pay Less NW.

In many ways, they become the industry pacesetters—in developing merchandising strategies and new store formats, the use of technology, uncovering new viable markets—even if in some instances the leadership roles aren't deserved.

Highest store volumes

More often than not, they are. Longs and Pay Less NW, for instance, use their merchandising savvy to produce the highest store volumes in the entire industry.

Longs is rather unique in the industry because it has evolved under a decentralized management system that places a great deal of operational authority in the hands of store managers and their staffs. They do their own buying and rebuying and join in chain-wide promotions only as they wish.

By keeping that merchandising control in the hands of the people who know their local markets best, Longs has built up a whopping $400 average sales per square foot and annual average store volume of $7.5 million—the best in the nation.

Pay Less NW, meanwhile, has built its popularity with shoppers by filling upper management ranks with people who had roots in the stores.

Now, that deep sensitivity to store-level concerns can be augmented by the merchandising disciplines of parent K mart, the king of general merchandise discounting.

As examples, by the end of this year, 34 Pay Less stores will have apparel departments and 75 will by the end of 1987. The department sizes will range from 4,000 to 12,000 sq. ft.

In addition, Pay Less has added 30 sku's of hardware items, using knowledge gained from Builders Square, the K mart-owned home center chain.

Without that strong knowledge base to build on, K mart wouldn't have quadrupled the annual expansion plans of Pay Less to 40-50 stores a year.

Walgreens, Rite Aid

Walgreens and Rite Aid are examples of chains that have grown in part through acquisition and the ability to spot market opportunities that offer advertising and distribution efficiencies and the chance to dominate an area.

Both also have aggressive private label programs that help to keep store margins up.

And both are in the forefront of using technology to help make better merchandising and operational decisions, while gaining tighter controls on inventory, pricing and labor expenses.

Walgreens was the first chain to automate all pharmacies chainwide, as well as one of the first chains to develop a warehouse inventory system that helped bring in-stock service up to the 95% level.

Rite Aid has so far equipped 590 pharmacies with computers and plans to be chainwide by February 1988.

Rite Aid has also installed scanners in 313 stores in markets where item price-marking isn't mandatory and plans to be chainwide by February 1989.

Moreover, the Rite Aid system links pharmacy computers with its front-end scanning systems, and data from both can be transmitted together to headquarters with a single phone call from the host computer.

Eckerd's Spartan

Eckerd has recently introduced a downsized Spartan format to 230 stores. In them, expanded greeting cards sections are placed next to cosmetics and women's hosiery at the walk-in in an effort to appeal to that 70% majority of Eckerd shoppers who are women.

A mini-convenience food department banks on the small store's ease of shopping and quick in-and-out appeal to steal fill-in visits from supermarkets and expose shoppers to Eckerd Spartan's core drug store departments.

CVS, on the other hand, hasn't had to deviate much from its top-grade systems approach to merchandising its core health and beauty aids and over-the-counter products sales. Industry experts regard CVS as one of the best, if not the best, operational chain.

CVS maintains control and margins by servicing almost 90% of what they sell in their stores through their own distribution centers.

Peoples' growth strategies

Peoples in recent years has also been forward in equipping stores with pharmacy computers—more than 300 total so far. But diversification has played an increasing role in its growth strategies.

Its latest efforts include nine Bud's deep discount drug stores and one Eye City optical center, an upscale eyeglass store that is combined with an optometrics center and a lens lab.

Thrifty has found the magic of small format stores, the Jrs., which enables Thrifty to target smaller trading areas and reach more consumers.

The strategy is also profitable on two counts: Thrifty can achieve 30%-plus gross margins in convenient downtown locations; inventory investment is less because Jr. sells only the fastest movers and carries fewer sku's.

That's why Jr. expansion will match that of Thrifty's conventional stores each year.

Revco paring sku's

Revco discovered two years ago that price-slashing wasn't a long-term winning pursuit and has recently eliminated 1,000 slow-selling H&BA and OTC sku's in some stores, while giving greater emphasis to cosmetics and greeting cards.

The giant chain, working to improve return on assets, is expected to close underperforming stores and withdraw from marginal markets.

Meantime, the Osco juggernaut of 659 stores in 39 states is expected to grow even stronger under the decentralization plan of parent American Stores.

Under the American plan, Osco and its sister divisions will each control their own real estate, buying, advertising and data systems functions.

Tax revision impact

What all 10 share with the rest of the industry is the impact of tax law revisions.

Trade sources and analysts already anticipate that retailers will cut into next year's higher earnings (because of a smaller tax bite) to precipitate bloody price wars.

If that happens, many current strategies are likely to go by the boards as independents and chains—even the billion dollar ones—struggle to survive with minimal damage.

After all, the battles that billion-dollar chains wage aren't necessarily giant; they're a series of smaller ones waged in many markets.

SPECIAL REPORT: BILLION $ CLUB

Walgreens rakes in $3.6 billion sales in '86

By Liz Parks

DEERFIELD, Ill. — Walgreens, which was the first drug chain to hit the $1 billion mark in 1978, is also likely to become the first drug chain to hit the $4 billion mark—as early as 1987.

Sales for the now nearly 1,300-unit chain hit $3.66 billion for the fiscal year ended in August. Wall Street analysts say that at the rate sales are climbing, Walgreens could pass the $4 billion a year mark sometime in early 1987.

Merrill Lynch is estimating that Walgreens will end its 1987 fiscal year with some $4.3 billion in total corporate sales, up nearly 19% over FY 1986.

The Street is also predicting that Walgreens, which they say has "the leading growth record in the drug store industry in terms of magnitude and consistency of growth," will continue to generate sales and earnings increases of between 15% and 17% a year for at least the next five years.

Fueling these high expectations is the respect that Walgreens' management commands for its accomplishments to date.

Today, in 26 out of the 36 markets where Walgreens has stores, the chain commands either the No. 1 or No. 2 market share.

Strongest growth in scripts

Moreover, Walgreens' growth is still strongest in the highly profitable and fast growing prescription end of its business.

"Walgreens' prescription franchise," says Merrill Lynch analyst Bob Roth, "engenders strong customer loyalty and is the critical element behind the company's strong sales and earnings momentum."

Roth and other analysts also point out that Walgreens is very favorably positioned for future store growth. Roth says that based on current demographics, he can see "five years of new store growth in existing markets alone." Analysts also say they expect more growth from Walgreens via aggressive acquisitions.

Acquisitions record

Since 1979, the company has acquired approximately 200 stores by acquisitions, and in just the past two years, Walgreens picked up nearly 100 stores by acquisition: the 26-unit Ribordy chain in Indiana and the 64-unit Medi Mart chain in Massachusetts.

Analysts say they expect more acquisitions down the line, particularly in the Northeast where Walgreens has said it hopes to have about 200 stores within five years.

The Ribordy acquisition essentially doubled Walgreens' store base in Indiana. All of the Ribordy stores have been remodeled, and Walgreens says they are "performing well relative to plan."

Wall Street analysts are estimating that the Ribordy acquisition only marginally diluted Walgreens' earnings in fiscal 1986 and that they will have a positive impact on earnings in fiscal 1987.

The Medi Mart acquisition last June in the Northeast is generally seen as Walgreens' "most significant" acquisition to date.

Foothold in Northeast

Medi Mart gives Walgreens geographic representation in the still rela-

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Walgreens growth: 1982-1987

(corporate sales)
(sales, net in millions)

	1982	1983	1984	1985	1986	1987 Est
Sales	$2,040	$2,361	$2,745	$3,162	$3,652	$4,330
% increase	17%	15.7%	16.3%	15.2%	15.8%	18.6%
Net Income	$48.5	$65.8	$80.6	$94.2	$103.1	$122.2
% increase	38.7%	35.8%	22.5%	16.8%	9.5%	16.7%
Stores	883	941	1,002	1,095	1,216	1,400
Average store sell space (sq. ft.)	7,815	8,402	9,002	10,010	11,770	12,910
Sales per average sq. ft.	$256	$276	$300	$319	$325	$340
Major remodels	32	55	46	61	95	115

Source: Walgreens annual reports, Merrill Lynch estimates

Walgreens highlights

1979 Walgreens tests first mini-combo convenience food departments
1980 Walgreens tests first home health care centers
1983 Walgreens opens state-of-the-art computerized warehouse in Flagstaff, Ariz.
1984 Walgreens opens its 1,000th store
1984 Walgreens opens its first N.Y. store in 20 years

Source: *Drug Store News*

Walgreens: Trends in sales mix

	1981	1982	1983	1984	1985	1986
Prescription drugs	15%	16%	17%	18%	20%	22%
Proprietary drugs	13	13	13	13	13	13
Cosmetics/toiletries	10	12	12	12	11	12
General merchandise	34	33	32	32	32	31
Tobacco	7	6	6	6	6	5
Liquor/Beverages	15	15	15	14	14	14
Food services	6	5	5	5	4	3

Source: Walgreens annual reports, Merrill Lynch

Northeastern drug store operators aren't overjoyed about the prospect of a big Walgreens presence. Walgreens took its first major step there with its recent purchase of 64 Medi Mart stores from Stop & Shop.

Key decisions in 70's made Walgreens what it is today

The industry's highest dollar volume drug chain, Walgreens, is today also the industry's most successful company.

The two don't necessarily go together, and there was a period back in the early 1970's and late 1960's when Walgreens was in trouble.

Unlike today, when Walgreens concentrates almost all of its investment dollars and management talent on its nearly 1,300-unit chain of traditional drug stores, Walgreens then was diversified into a variety of business areas: managing a 50% owned combination food/drug store venture with Schnucks, a St. Louis-based food store chain; operating a chain of discount department stores called Globe; overseeing a private label division that sold Walgreens private label products to independents affiliated with Walgreens' agency program; and managing a nearly 50% equity interest in Sanborn Hermanos, S.S., a retailer with diversified businesses in Mexico.

Back then, too, the company was spread thin operationally, struggling to manage a number of marginal stores in undeveloped markets and spending more on new store growth than on remodeling or enhancing existing operations.

During the 10 years between 1965 and 1974, earnings declined and same-store sales growth for the drug stores was erratic.

In 1975, however, Charles R. Walgreen III was named chairman of the board, and the company undertook a massive redeployment of its assets. The result was a much sharper focus on the drug stores as the company's predominant business.

In 1978, Fred F. Canning was named president, and the company temporarily suspended new store expansion to pursue instead a badly needed and extensive store remodeling program.

Many underperforming drug stores were subsequently closed. At the same time, Walgreens began withdrawing from marginal markets where the company's low market share restricted profitability.

In this period, too, management began to consolidate its purchasing and merchandising divisions, and they began to implement programs that tightened the link between merchandisers and buyers at the corporate level and managers and sales personnel at the store level.

Walgreens, at this point, made the critical commitment to developing a superior management information system, a commitment that resulted in Walgreens becoming the first drug chain to automate all pharmacies chainwide, as well as one of the first chains to develop a warehouse inventory system that helped bring in-stock service up to the 95% level. Sources say that only CVS Drugs has a warehouse system as sophisticated or better.

The result is that 10-year compound annual growth rates between FY 75 and FY 85 have been exemplary: drug store sales up 13.7%; net U.S. earnings up 17%; earnings per share up 24%.

SPECIAL REPORT: BILLION $ CLUB

Walgreens' Rx and cosmetics sales on rise

In FY 1986, Walgreens' sales mix totals broke out this way: 22% of all sales were generated by the pharmacy, up seven percentage points since 1981.

Another 13% of sales came from OTC drugs, while 12% came from cosmetics. Some 31% came from Walgreens' expanded line of general merchandise products, while 5% came from tobacco, 14% from liquor and beverages and 3% from food services.

In the past five years, gm, tobacco, liquor and food service sales have been trending down as pharmacy and cosmetic sales have been growing.

Walgreens intends to phase food service fountains out of its stores over the next four years, and pharmacy is expected to grow to perhaps the 25%-27% total sales level.

Walgreens emphasizes an everyday low price policy with shelf signage, which also plays up a private label program that is one of the most aggressive in the industry.

10% generics

In pharmacy, generics, according to Wall Street analyst Bob Roth, now account for about 10% of all Walgreens prescription sales, compared with just 5% five years ago.

Roth estimates that Walgreens' margins on generics are about 50%, compared with mid-30% margins on branded pharmaceuticals.

Roth says that currently, some 20% of Walgreens' new scripts are prescribed generically, leading him to conclude that in five more years, generics will represent about 20% of total pharmacy revenues.

That mix shift, says Roth, should add about one more percentage point to pharmacy gross margins. However, some of that gain could be offset by increases in Walgreens' third-party script business. More than 20% of Walgreens' scripts right now are dispensed through third-party programs, and that number is expected to grow.

However, Walgreens is also expanding its mix of higher gross margin import items, which now account for about 5%-plus of sales. In addition, sales of the higher margin Walgreens private label products are growing. Five years ago, private label products accounted for 4%-5% of total store sales. Today they account for 7%-8% of total sales.

Roth thinks that private label products, with margins of 50% and better, will rise to 10% of total sales over the next couple of years.

Mini combos

Today also, about one-third of all Walgreens stores are laid out as mini combination convenience food and drug stores. These stores have expanded convenience food departments of between 800 and 1,000 sq. ft. and carry 500-600 food and beverage sku's.

Sources say these stores have performed well, and Roth is estimating that some 40%-50% of all future Walgreens will be of the slightly larger 13,800-sq.-ft. mini-combo format. The ROI in these stores, sources say, "is superior to the ROI in the traditional Walgreens stores."

Walgreens also has 41 24-hour drug stores, and sources say these stores are performing well and will be expanded.

About 25% of Walgreens' total stores are freestanding. These, too, are turning in above average sales productivity and profit margins, sources say, and Walgreens will open more like them in the future.

Walgreens also operates five Home Medical Center home health/convalescent aids stores. Wall Street sources say this experimental division has been turning in "steady operations growth."

These stores typically depend on referral business from local doctors and hospitals as well as sales derived from catalogs placed near the pharmacies in neighboring Walgreens drug stores.

According to sources, the home health care centers lose money their first year, become slightly profitable their second year and generate above average profit margins in their third and subsequent years.

Double-digit sales, earnings growth seen through '90

Continued from page 28

tively virgin chain market of the Northeast. Walgreens management has said that potentially, they hope to build at least another 150 stores in that market over the next five years.

Medi Mart stores are being remodeled and are being given the interim name of Walgreens-Medi Mart.

Analysts are also saying that the Medi Mart acquisition may dilute earnings somewhat in fiscal 1987, but that they should begin making a positive contribution by FY 1988.

Improvements should come from the integration of the Medi Mart stores into Walgreens superior operations programs, such as the warehouse-inventory program and the intercom pharmacy computer program, as well from the merchandising remodels. As Walgreens adds new stores and clusters in the market, of course, there will also be more savings from advertising efficiencies.

Walgreens is not repeating the mistake it made in the late 1960's of neglecting older existing stores. The chain has an extensive remodeling program, and by year-end 1986, more than two-thirds of the chain's stores will either have opened or undergone a major remodel within the last five years.

Merchandising strong

Most sources also say Walgreens' merchandising division is just as strong as its operational divisions. Unlike its rival, CVS, which is always praised for its operational strengths but sometimes slighted for its merchandising blandness, Walgreens is considered an excellent merchant. Roth points out that such key departments as pharmacy, photography, cosmetics, liquor, stationery and candy produce average sales per square foot of approximately $320, or about 75% above the drug chain industry average.

On the operational side, Walgreens merchandise in-stock ratio is estimated at approximately 95%, while the company has an order-delivery turnaround time of only two to three days for 97% of its company stores, compared with a turnaround time of five days for the average drug chain. About 80% of the merchandise carried in a typical Walgreens store comes through its six distribution centers.

At Merrill Lynch, Roth says that Walgreens has reduced its distribution expenses by approximately 30% over the last five years.

The six-facility warehouse network is now fully automated, but management has told analysts that they can anticipate further improvements in inventory turnover under the company's two-year Distribution Resources Planning Program. Like CVS, Walgreens can split-case and service its stores with small size deliveries, including singles if necessary.

DC information applied

Walgreens buyers, assistant buyers and merchandisers also use the information available from the warehouse to plan their merchandising and promotional allocations.

Because of Walgreens' sophisticated information systems, buyers in the chain can measure the ROI productivity of each sku carried in the warehouse. Buyers also have information on each sku carried in 22 "panel stores" that track product movement information through the front end.

Walgreens' geographically dispersed panel stores were set up in 1975, and they track and maintain electronically generated data on every sku in stock. They monitor sales and gross margin trends and are used to test new products.

Walgreens has told Wall Street analysts that by 1990 it hopes to have similar integrated point-of-sale cash registers in all of its stores. The company will begin testing POS in 10 stores in Fort Wayne, Ind., in fiscal 1987 and will expand into several hundred stores in fiscal 1988.

Currently, all 180 departments in the Walgreens chain are replanogrammed each year on the basis of each sku's ROI ranking.

Walgreens market universe

State	Stores at end of FY '85	% of store base	Next 5 yr. store opening potential
Ill.	226	20.6%	100
Texas	169	15.4	30
Fla.	159	14.5	150
Wis.	84	7.7	20
Ariz.	53	4.8	40
Calif.	46	4.2	30
Tenn.	45	4.1	20
Colo.	37	3.4	10
Mo.	35	3.2	30
Ind.*	27	2.5	10
Ky.	27	2.5	no est.
La.	25	2.3	no est.
Iowa	25	2.3	no est.
Minn.	25	2.3	no est.
Neb.	23	2.1	no est.
N.M.	19	1.7	no est.
Puerto Rico	19	1.7	no est.
Ohio	15	1.4	no est.
Ark.	6	0.5	no est.
Mich.	6	0.5	no est.
N.Y.	6**	0.5	20
Kan.	5	0.5	no est.
Miss.	4	0.4	no est.
Ala.	3	0.3	no est.
Okla.	2	0.2	no est.
Conn.	1**	0.1	20
N.J.	1**	0.1	60
N.D.	1	0.1	no est.
S.D.	1	0.1	no est.
Mass.	0**	0.0	50
N.H.	0**	0.0	no est.

*In fiscal 86, Walgreens doubled its Indiana base with acquisition of 26-unit Ribordy chain.
**In fiscal 1986, Walgreens picked up the following via its acquisition of Medi Mart: 30 Mass. stores, 17 Conn. stores, 14 N.J. stores, 2 N.H. stores, and 1 additional N.Y. store.
Source: Merrill Lynch

SPECIAL REPORT: BILLION $ CLUB

Revco firms grip in East and Midwest areas

Revco uses up-front promotional tables to display high-margin, high-impulse merchandise like candy.

TWINSBURG, Ohio — Revco acted to strengthen its grip in its Eastern and Midwestern trading areas, as management entered the last lap toward completing a proposed leveraged buyout.

As a management-investor group struggled to lock up its $1.25 billion buyout by the end of 1986 in order to retain advantages under the old tax law, it moved quickly to restaff, restructure field operations and remerchandise stores.

Revco named only the three top manager investors: Sidney Dworkin, chairman and ceo; William Edwards, president and coo; and cfo R. Carroll Hudson. It said about 12 others in management will participate.

Locations of Get It For Less deep discount units

Memphis, Tenn.	1
Minneapolis, Minn.	1
Tulsa, Okla.	1
Canton, Ohio	1

Source: Revco

Meantime, top operations and merchandising management underwent a sweeping change in a series of appointments and a resignation since the buyout was announced in March.

In merchandising, Revco is betting on the combination of strong pharmacy sales with improvements to the front-end under Edwards' direction.

Pharmacy key

Not surprisingly, pharmacy remains the key store. Pharmacy sales totaled 31.1% of total drug store sales in 1986, up from 30.5% in the previous year. Like-store prescription sales rose 13.2% compared with 11.1% gain in the 1985 fiscal year. The number of prescriptions filled increased 9.8% in 1986 vs. 3.7% the year earlier. First-quarter 1987 Rx sales volume was up 15.3%, and 12.5% on a same-store basis.

The front-end strategy is to capitalize on this business by fine-tuning merchandise assortment. Revco also unveiled retrofitted stores, in which key departments were reformatted.

Greeting cards and cosmetics figured prominently in the retrofit. Cosmetics departments in some stores were moved from the right wall to the left wall, where entering customers are immediately exposed to them. An expanded greeting cards section with lighted fixtures was set across the aisle from cosmetics, by the walk-in. They had been at the rear. Speed table merchandise was cut back.

Locations of Odd Lot off-price retail stores

Region	No. of stores
Florida	13
Maryland	5
Massachusetts	5
Michigan	26
New Jersey	20
New York	56
Ohio	6
Pennsylvania	10
Connecticut	13
Total:	156

Source: Revco

The chain also pared more than 1,000 OTC and H&BA sku's in some stores. Revco also experimented with stepped-up tabloid promotions to underline its everyday discount image.

Honing productivity

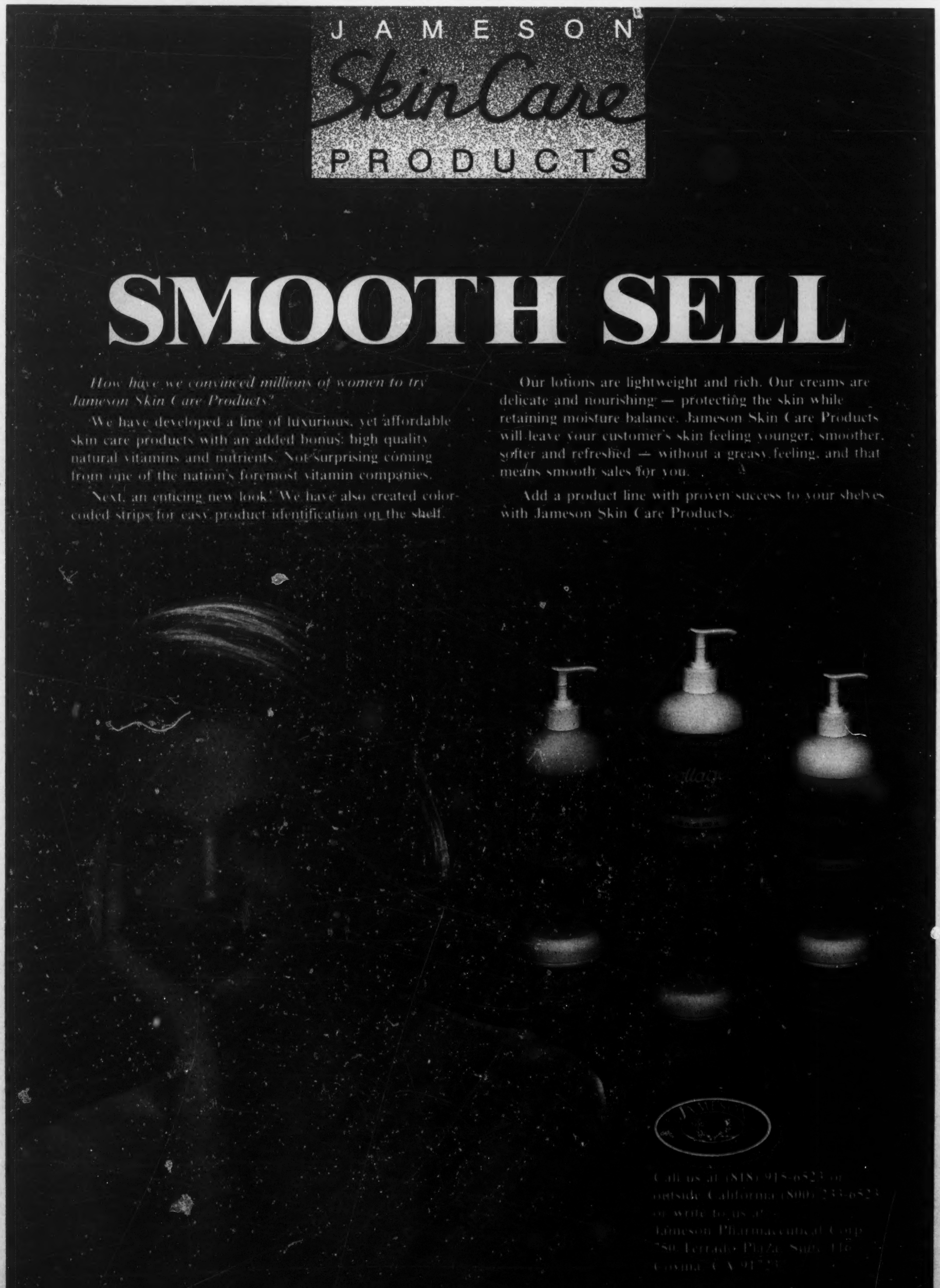
The management restructuring and remerchandising were anticipated by industry observers and Wall Street analysts, who said that improving productivity would be a first priority for the chain as it moves toward private control.

The chain will have to improve return on assets rather than plan extensive new store growth, said analysts, who expect Revco to close underperforming stores and withdraw from marginal markets.

They also said Revco will turn to selling its nonretailing subsidiaries in order to reduce LBO debt. In November, the chain sold Private Formula-

Continued on page 31

Rx issues revealed in *Cohen's Capsules*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SPECIAL REPORT: BILLION $ CLUB

Revco store growth trends

	Number of units at fiscal year's start	Net store gain at year's end	Gross retail footage at year's end (thousands of sq. ft.)	% gain
1982	1,514	79	12,227	7%
1983	1,593	68	12,849	5
1984	1,661	117	13,909	8
1985	1,778	120	15,148	9
1986	1,898	133	16,694	10

Source: Revco annual reports

Sales and profit trends for Revco Drug Stores

(Sales and earnings in millions)

	Revco sales	Operating profit	Net earnings
1980	$1,092.8	$ 73.0	$38.9
1981	1,310.4	85.3	45.1
1982	1,588.6	97.5	49.0
1983	1,839.0	129.5	68.0
1984	2,227.5	177.6	93.4
1985	2,395.6	81.1	38.9
1986*	2,743.2	125.3	56.9

Source: Revco annual reports
*For fiscal year ended May 31, 1986

Revco highlights

1980: Revco tops $1 billion in sales.

1981: Revco acquires the 154-store Skillern Drug chain in Texas from Zale.

1983: Sidney Dworkin, president and ceo, becomes chairman also upon the death of Lee C. Howley.

1984: The F.D.A. recalls the E-Ferol vitamin supplement made by Revco's Carter-Glogau Laboratories subsidiary after it is linked to infant deaths.
Revco buys the Odd Lot Trading Co., an off-price retailer, after a two-year joint venture.
The chain is named in the first of what will be a series of lawsuits by parents of infants who were given E-Ferol. Insurance covers Revco's exposure.
Odd Lot executives Bernard Marden and Isaac Perlmutter, major Revco shareholders, threaten a takeover.

1985: Revco buys out Marden and Perlmutter and fires them as Odd Lot's administrators.
Revco opens its 2,000th store.
William Edwards, former president of F&M Distributors, is named president and coo.

1986: Revco management led by Dworkin announces a leveraged buyout proposal of $33 cash and $3 securities per share.
The chain reports year-end earnings up 62%, reversing a 1985 earnings slide.
The Board of Directors approves a sweetened buyout offer from the manager-investor group of $38 per share.
The buyout group details financing for the $1.25 billion purchase, as it aims for a shareholder vote on the buyout before year's end.

Revco earnings rebound

Continued from page 30

tions, a subsidiary that makes private label OTC products, for an estimated $16 million. The sale followed the spin-off of its General Computer Co. earlier in the year.

Analysts said that the management-investor team is under strong pressure to complete the buyout by year's end, when the new tax law will eliminate benefits from capital gains and abolish the General Utilities Doctrine. That will curtail income stemming from depreciation on assets that acquiring companies write up to reflect market value.

The two companies formed to complete the buyout—Anac Merger and Anac Holdings—revealed proposed financing, as the buyout group sought a vote by Revco shareholders on their $38.50 per share cash offer by December.

The group said in a registration statement to the S.E.C. that financing will include the sale of notes, common stock and stock puts by the two companies, as well as from bank financing.

Revco's earnings in the fiscal year ended in May had rebounded strongly from the previous year, as the chain recovered from an unsuccessful price-slashing program and improved Odd Lot revenues through a remerchandising program.

Year-end figures

The year ended with sales up 14% at $2.7 billion, compared with 1985's $2.4 billion. More significantly, operating earnings rebounded from a low of $81 million, the lowest since 1980, to $125 million. Net earnings were $56.9 million, or $1.72 a share, compared to $38.9 million, or $1.06 per share.

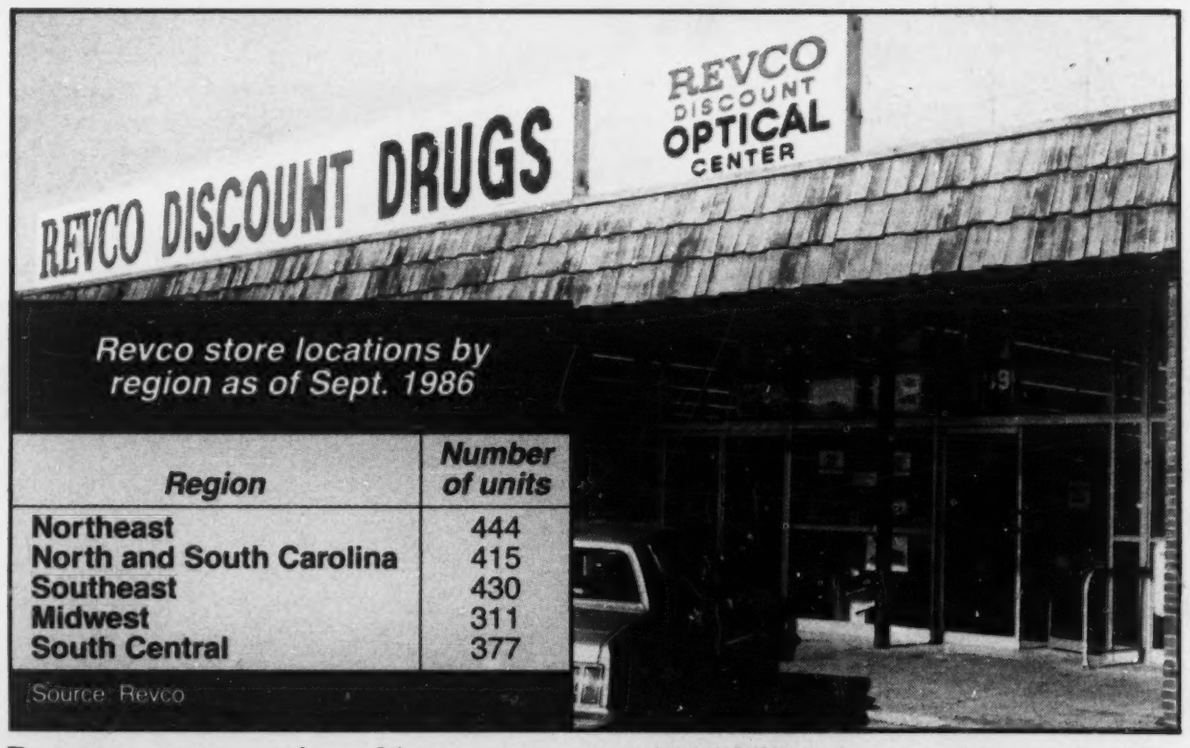
Although prescription sales continued their strong growth in the first quarter FY '87, ended Aug. 23, net earnings fell 31.2% from the comparable quarter in FY '86, at $6.4 million compared to $9.3 million. Sales jumped 7% to $627.9 million from $585.5 million.

Revco attributed the drop to softer nonpharmacy sales, higher interest costs and less income from nonretail operations.

Revco return on average stockholders' equity

1981	1982	1983	1984	1985	1986
19.46%	18.35%	20.64%	22.75%	8.6%	13.4%*

*For fiscal year ended May 31, 1986
Source: Revco reports

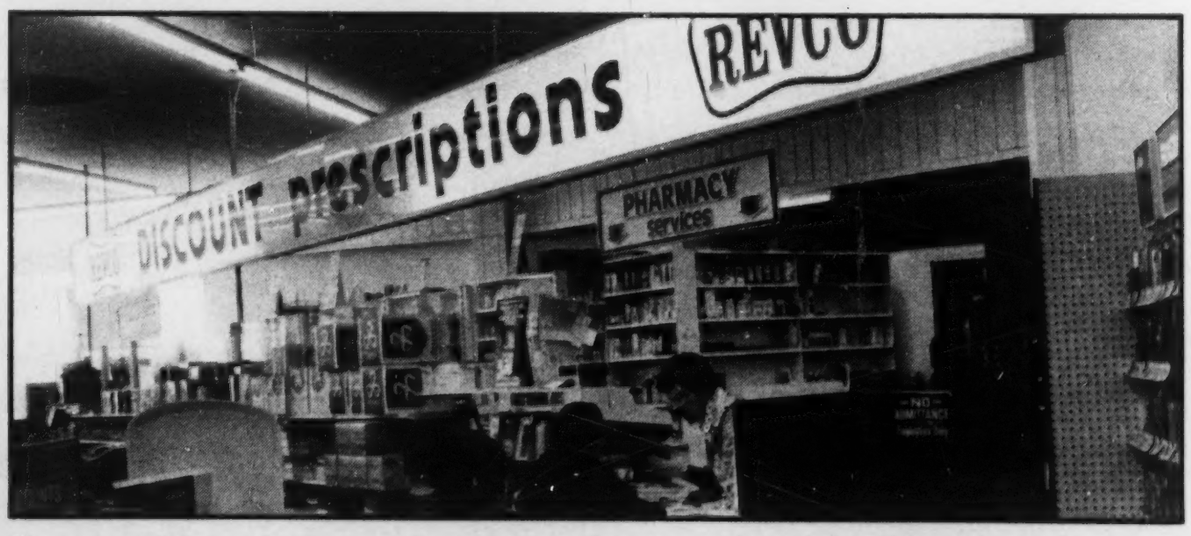


Revco store locations by region as of Sept. 1986

Region	Number of units
Northeast	444
North and South Carolina	415
Southeast	430
Midwest	311
South Central	377

Source: Revco

Revco management is seeking to wrap up a $1.25 billion leveraged buyout of the chain, which has more stores than any other in the industry.



Revco's pharmacy department accounted for 31% of 1986 sales.

While Revco LBO unfolds, management restaffs

TWINSBURG, Ohio — A restaffing of top management in merchandising and operations and a revamping of its field network were undertaken as Revco's leveraged buyout unfolded.

A. Richard Butler, a former F&M Distributors' officer, was named senior vp-store operations. Albert Sebok, formerly in that post, was moved to a newly created position of vp-professional services, reflecting the company's goal to protect the pharmacy segment.

Purchasing responsibility was divided between two new divisional merchandise director posts, with Ellis Jones and Philip Carfagno named to the jobs, reporting to vp-merchandising Neil Roth. Roth then left in October. Sources said that John Crowley, who had been named in March to head up Revco's lackluster Odd Lot off-price store subsidiary, had assumed merchandising responsibility for the conventional stores. Crowley, 59, was a former merchandiser at W. T. Grant, where Edwards also had worked before moving to F&M.

Also, Robert Gerdony was hired as senior merchandise director for seasonal and import merchandise.

The chain announced completion of a major restructure of its field network in September, which Edwards said would allow it to operate with more sensitivity to markets.

The country is divided into five regional zones, replacing a map that had vaguely bisected the nation into two divisions, north and south. Revco hired two retailers from outside to fill two of the five new regional manager posts, with the remaining three filled internally.

By creating 64 districts within the regions, compared with 105 districts in the old system, the chain was able to eliminate management positions and tighten the chain of command from headquarters to store level. The district boundaries delineate markets based on factors such as similarity of store merchandise and advertising zones.

SPECIAL REPORT: BILLION $ CLUB

Business from Jewel-Osco combination stores such as this Rosemont, Ill., unit allows American Stores to command 25% of the Chicago drug market.

The front-of-store Christmas wrap display in a Jewel-Osco combo greets entering shoppers and is visible from the parking lot.

American splits drug, food in restructure

SALT LAKE CITY — American Stores has begun to integrate its geographically far-flung retail network, after years of pursuing one of the most aggressive growth-by-acquisition strategies in the food and drug trades.

Its latest announced plan to decentralize into three divisions should create a powerful national drug chain under the Osco banner.

The $14 billion conglomerate is at last completing the giant task of assimilating the Jewel Co.'s food and drug operations it acquired in June 1984. In 1987, its main priority will be to separate its food and drug operations, while decentralizing management of both. The drug division will include Osco, Sav-on and Skaggs.

Drug division

Industry observers predict that American Stores will create one of the strongest, most efficiently run drug chains in the country as the decentralization is implemented. The decentralization will give a stronger identity to drug operations—made up of 659 stores in 39 states—and allow greater flexibility and closer regional control in management.

Under president Richard George and chairman Scott Burgeson, the drug division will continue to integrate the company's separate drug chains under the Osco name.

Skaggs Co. division

Drug merchandising efforts will be advanced further through the Skaggs Alpha Beta combination stores, which will be major growth vehicles. The Skaggs Alpha Beta units and the Buttrey stores, which total 156 units between them, covering 14 states, are part of the Skaggs Co., the second of the three divisions being formed. Alpha Beta Supermarkets (244) are also part of Skaggs.

This group also includes a potential new operation: Florida Skaggs Inc. Analysts said that this has been formed to investigate expansion of food operations into Florida.

Third division

The third division is the American Super Stores division, which includes 299 Acme Stores, 218 Jewel Stores and 45 Star markets.

The restructuring, which the company said will begin in February, will have the net result of boosting earnings and stock value over the long term, said John Kosecoff, an analyst with First Manhattan, a New York brokerage firm.

"I think they are doing some exciting things. Management believes that the restructuring will allow the inherent value of these operations to emerge," Kosecoff observed.

The decentralization, which analysts said is just beginning to evolve, will include closing down its Salt Lake City corporate headquarters. Functions such as real estate, buying, advertising and MIS will be splintered out to each of the three divisions operating out of existing corporate offices throughout the country.

Kosecoff said the decentralization has been in planning for some time as a long-term strategy for earnings growth, and was not a specific response to the current takeover climate. Other analysts, though, speculated that the rash of recent takeover moves, including the recent buyout of Safeway Stores, hastened the announcement, as occurred when Kroger took its first steps to divest its drug store operations.

Highlight drug business

The splitup of food and drug operations was also seen as a method of focusing attention on the drug business in order to enhance the stock price, since drug operations have recently commanded higher multiples than grocery chains. "They want to show the world, and Wall Street specifically, how much drug business they do," noted one analyst, who said that American Stores will now begin reporting drug store performance separately.

Analysts said American Stores will also likely spin off a portion of the drug division to shareholders, which would further highlight the business.

American Stores stock on the New York Stock Exchange has traded recently below the market average and at a discount to other retail companies.

"The stock is clearly being penalized relative to the market," said Kosecoff.

Analysts said the depressed stock price is a result of American Stores lagging second-quarter performance, a downtrend they expect to be repeated in the third quarter. Also, they said investors are concerned about the effectiveness of the Jewel integration into the company, high interest expenses, and the costs of the restructuring operations.

The company pinned its lower second-quarter results—with earnings per share at 85¢ compared with $1.12 in 1985—to lagging performance in economically troubled regions of the Midwest, Southwest and the Mountain states. Also, earnings were affected by deflation in food prices and competi-

Continued on page 35

Major markets of American Stores' Osco, Sav-on and Skaggs Alpha Beta stores

		Market share
Denver	**Osco**	*27.6%*
Chicago	**Osco**	*25.1*
Boston	**Osco**	*16.6*
Los Angeles	**Sav-on**	*23.2*
Dallas	**Skaggs Alpha Beta**	*17.5*
Salt Lake City	**Skaggs Alpha Beta**	*27.5*
	Osco	*22.2*
Oklahoma City	**Skaggs Alpha Beta**	*10.1*

Sources: Prudential-Bache, Drug Store Distribution Guide and SN Distribution Study

American Stores highlights

1979: The Skaggs Co. buys the Philadelphia-based American Stores.

1984: American Stores buys Jewel, Sav-on and Osco for $8 million.
The company sells off the 134-unit Rea and Derick drug chain.

1985: Richard George is named to head up the drug division as president.
Thomas King is named president and coo of American Stores, effective February 1986.
American reveals plans to centralize its distribution system around four warehouses in Utah, California and Illinois.

1986: Industry observers predict a rollout of combination stores in Florida, after chairman Sam Skaggs announces the company will reenter the Florida market in the near future.
American announces plans to decentralize operations by creating three divisions. One division will be Osco Drugs, made up of all of American's drug stores integrated under the Osco banner, with Dick George as president.

American Stores sales and earnings
(in millions)

	1982	1983	1984	1985
Sales	$7,507	$7,983.7	$12,118.8	$13,889.0*
Earnings	90.4	117.9	134.5	154.5*
Earnings per share	2.69	3.61	4.01	4.11*

*For fiscal year ended Feb. 1, 1986
Source: American Stores annual reports

The chain has recently completed converting the Sav-on stores name to Sav-on/Osco. Skaggs has already been changed to Osco. One advantage of a single name for all drug stores will be enhancing customer identification for Osco's private label program.

SPECIAL REPORT: BILLION $ CLUB

Sav-on integration a priority

Continued from page 34

tion in Southern California faced by its Alpha Beta supermarkets. They responded by slashing retail prices on 6,000 sku's in an ongoing program, and boosting advertising and promotion.

Kosecoff predicts earnings per share for the current fiscal year ending February 1987 at $3.75, compared with 1985's $4.11. This will result in a price earnings multiple of 15.2 times for the year, about 10% less than the p/e multiple of the Standard and Poor's 400. He forecast American's 1987 earnings at $4.75, which would be an earnings multiple of 12 times, and a 20% discount to the market.

Analysts bullish

But analysts looked for improved fourth-quarter results, and they were particularly bullish on American Stores' long-term prospects.

They pointed to the company's consistent earnings growth, a return on equity record that easily surpasses the industry, and the fact that it has wide experience in aggressively managing assets.

American posted a compounded growth rate on earnings per share of 24% in the last five years. Return on shareholders' equity in 1986 was 18%, 50% higher than the market average.

Wall Street's bullishness is also partly a result of its faith in the managerial skills of chairman L. S. "Sam" Skaggs, who has rapidly constructed a national chain through shrewd acquisitions.

In 1970, Skaggs owned 98 stores, with $183 million in sales, and earnings per share of 31¢. Today, its 1,400 units generate $14 billion sales and $4.11 earnings per share.

Integrating Sav-on

A recent priority has been integrating theSouthern California Sav-on stores into the drug operations. Market sources say the stores had lost merchandising direction and flair at the time American acquired them with its purchase of Jewel.

"What appears to be changing is the management direction. It looks like more control and more cost efficiency in the stores," said one source.

Market sources in Chicago said that Osco stores this year moved in the direction of increasing assortments in health & beauty aids and over-the-counter products. About 400 sku's have been added to the mix, creating "a more traditional drug store assortment" similar to Skaggs, a source said.

Osco in the past had leaned toward an "80/20" philosophy focusing on carrying the 20% of inventory that accounts for 80% of business.

"They had an initial philosophy of carrying only the top selling sku's in broad quantities at decent prices," the source said. Ophthalmic and eye care are two categories that have been expanded in the last six months in the Chicago market, the source said.

Estimated American Stores' drug division operating profits
(in millions)

	1983	1984	1985	1986
Osco	$ 55	$ 60	$205	$216
Skaggs	100	105		
Sav-on	10	10	14	
*Rea and Derick**	8	8		

*Sold November 1984
Source: Prudential-Bache Securities Inc.

Estimated American Stores' drug division sales
(in millions)

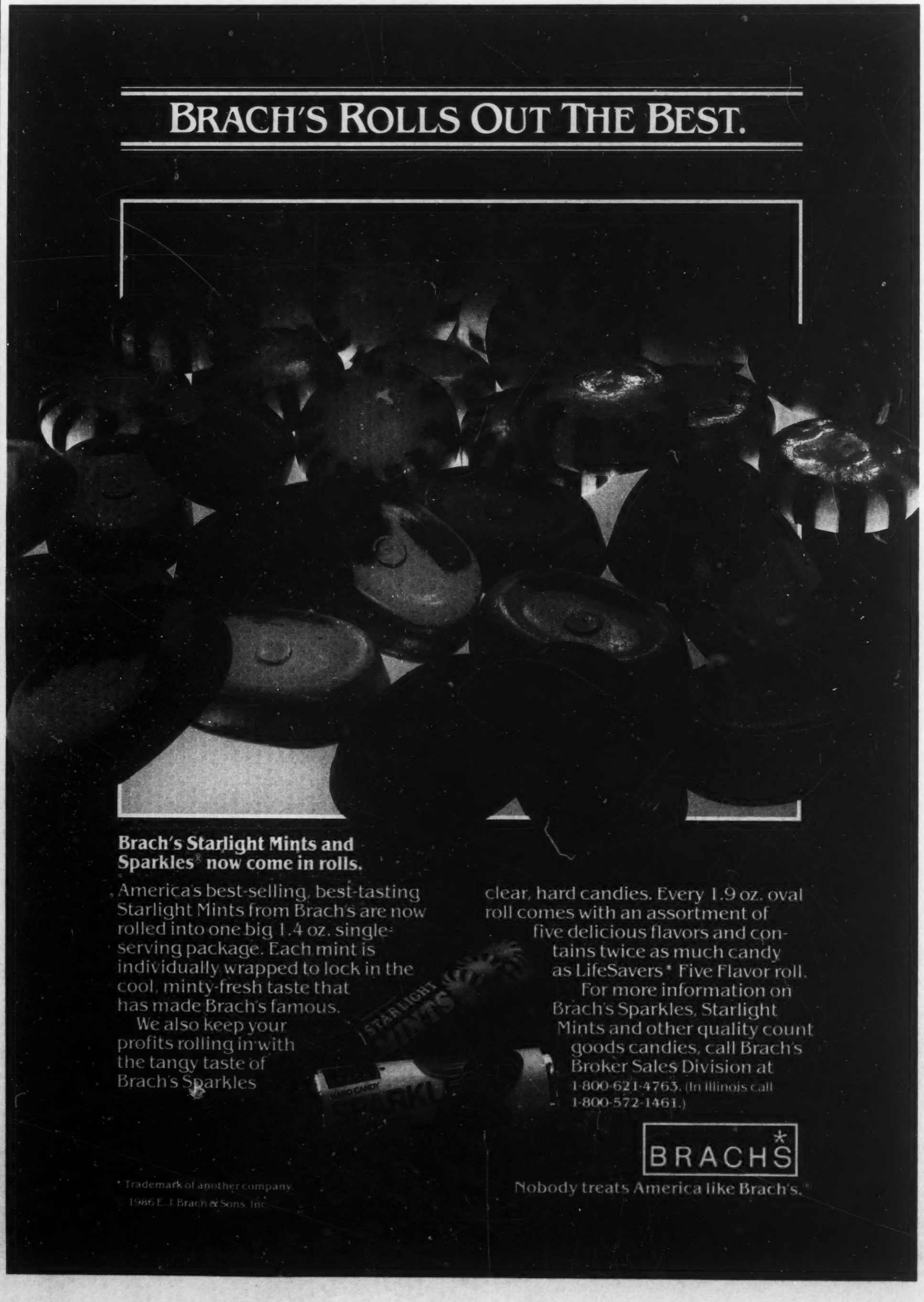
	1983	1984	1985	1986
Osco	$1,050	$1,150	$3,850	$4,780
Skaggs	2,000	2,090		
Sav-on	800	700	790	
*Rea and Derick**	200	160		

*Sold November 1984 Source: Prudential-Bache Securities Inc.

American Stores return on average stockholders' equity

1981	1982	1983	1984	1985
20%	24.5%	26.4%	30.4%	17.9%

Source: American Stores' annual reports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SPECIAL REPORT: BILLION $ CLUB

Analysts eye hot battle in CVS market by '90

Ask drug store retailers to name the best "operational" company in the business and 9 out of 10 will answer: CVS.

Sources who compete with the 600 plus-unit chain in the Northeast say that only Walgreens comes close to rivaling CVS in operational efficiencies.

Both retailers who compete with the chain and vendors who sell to it marvel at CVS's mastery of its inventory and its in-store service rates.

Sources who know the chain well say their in-stock service levels are virtually always at the 97% level.

Tops in efficiency

"If CVS doesn't have an item in stock," said one former buyer, "it's usually not because the warehouse doesn't have it, but because the vendor can't supply it. They are unquestionably the most efficiently run company I've ever worked for."

"CVS will never tell anyone how they do it," said one source who knows the company well, "but there's no question they have the most efficient operations and distribution system in the business. Most companies who get big enough to do over a billion a year in sales run into problems operationally. The buyers and the merchandisers get out of touch with the stores, and there's usually a failure to implement all the merchandising plans.

"Displays aren't put up when they're supposed to be put up. Things aren't ordered on time. Shelves aren't stocked. Or people are trying to stock during peak hours and the aisles get cluttered.

"CVS, however, doesn't have these problems, or they have them less than the rest of the industry. Their stores are clean. Their aisles aren't cluttered. They have virtually no out-of-stocks. They move fast in getting new products into their stores and promoting them well.

"If they have a flaw, it may be that they are too scientific, too much of an automaton. There may not be as much of a challenge there as there is with other companies, and they certainly aren't as creative with their merchandising and their product mix as, say, Walgreens."

Similarities with Walgreens

Other sources, however, say there are more similarities between CVS and Walgreens than there are differences.

Walgreens, of course, is still an independent, publicly owned company, while CVS is a division of the nearly $4 billion a year Melville Corp.

Walgreens, which is the industry's highest volume drug store retailer, has financed its own growth, and in 1986, Walgreens will have almost as much sales volume as CVS's parent.

CVS, on the other hand, was just a 40-store chain doing a little more than $20 million a year in sales when Melville acquired it in 1969, and Wall Street sources say that CVS could never have grown as fast or as efficiently without the resources of Melville behind it.

However, analysts and retailers who know CVS well say it was their management—particularly the management of the Goldstein brothers who founded the chain and Stan Goldstein who headed it as president until he was promoted at Melville two years ago—who deserve credit for the success the company has enjoyed over the years.

"Walgreens' strength today is its management," said one Wall Street source, "and the same is true of CVS. Goldstein was particularly crucial because he was the one who began automating CVS, but their entire management structure has been very stable. They train their people well. They promote from within. They have very little turnover. They have very efficient procedures to follow.

"And, like Walgreens, they ship most of their merchandise in their stores from their own warehouse. I'd estimate that today almost 90% of what they sell in their stores goes

Continued on page 38

CVS highlights

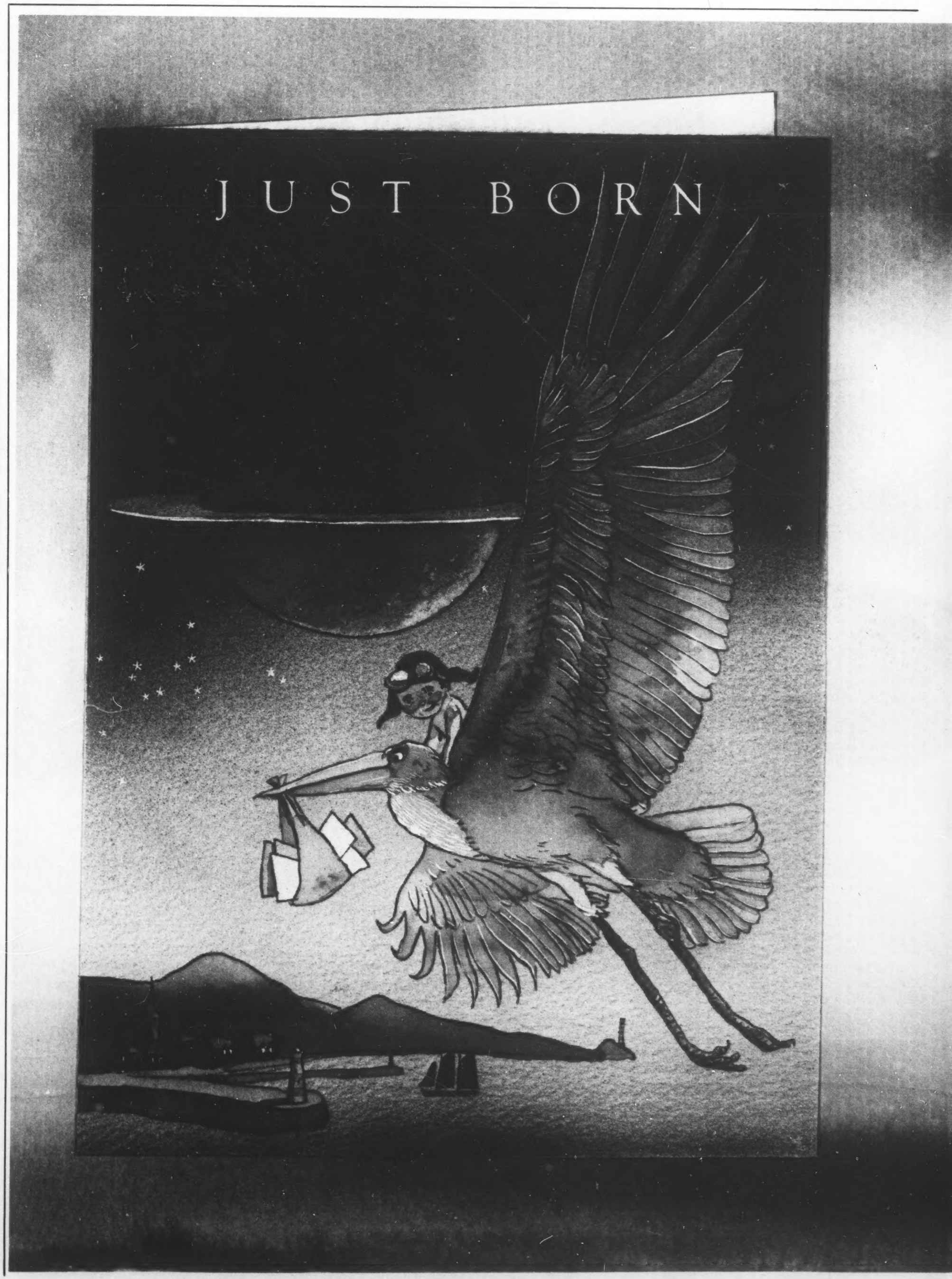
1969 Melville Corp. acquires CVS.

1972 CVS opens first store with a pharmacy.

1982 CVS opens Woonsocket, R.I., office and distribution center.

1985 CVS hits $1 billion in sales.

Source: *Drug Store News*



Pharmacy, stock refills hone CVS edge

CVS store growth

	CVS stores	% increase
1979	384	7.9%
1980	408	6.3
1981	433	6.1
1982	466	7.6
1983	513	10.0
1984	553	7.8
1985	592	7.1
1986 (Est.)	626	5.7

Source: Melville annual reports

When Melville acquired CVS in 1969, the company was primarily a small regional chain of health & beauty aid stores. None of the stores had pharmacies.

However, CVS opened its first pharmacy department in 1972, and by 1979, 52% of the chain's stores had pharmacies. By the end of 1986, some 425 stores, or 68% of the chain, will have pharmacies.

"We have pharmacies in virtually all the older stores that can support them," said a company source, "and almost all the new stores we open have pharmacies."

According to Wall Street sources, pharmacy sales are growing at about 25% a year for the chain, which accounts in part for some of the strong gains in same-store sales each year.

In stores with pharmacies, that department accounts for about 27% of sales. For the chain as a whole, pharmacy accounts for about 22% of sales.

"The other thing that makes their sales growth so strong," says an analyst, "is their automated systems and their low out-of-stocks.

"Many drug chains today lose sales because they don't stay in stock. People come in to buy something and the chain doesn't have it, particularly in cosmetics. CVS rarely has that problem."

Sophisticated systems

According to several sources at CVS, the computer system that Stan Goldstein helped develop accounts for the high service level to the stores. Sources say the company's two warehouses in Woonsocket, R.I., and Victor, N.Y., service approximately 85% of the stores in the chain and cover close to 90% of the products carried in a CVS store. CVS is currently looking for a site to build a third warehouse in California, where CVS now has about 35 stores.

The computer systems are so sophisticated that CVS, over time, can average out the weekly sales movements for any individual store in its system.

"We're not doing automatic replenishment," said a source, "but the store purchase histories are a tool for the individual store managers so they'll know what they should order."

Sources for the chain also say that CVS keeps a "heavier shelf inventory than the average drug chain." One source calls it "a safety stock on the shelf. We'd rather have the item for the customer than have absolute minimum inventories," he said.

Warehouse practices

Because the CVS warehouses will ship in threes or singles, however, the store inventory level is not unacceptably high. CVS managers, basically, do not order in cases. They order in pieces or singles and they order primarily to replace what they know they will sell from one warehouse delivery to another.

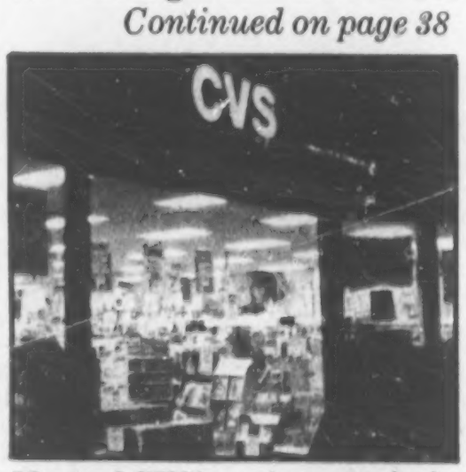
From its warehouse reports, CVS store managers know the individual turns on specific sku's in their stores. If one lipstick turns five times a week in store A and 15 times a week in store B, the managers of both stores know the turns on that sku and order accordingly.

In the cosmetics department and in certain segments of hair care, where service is crucial to staying in stock and staying on top of the latest fashion trends, CVS has its own corporate merchandising program, funded primarily by manufacturer allowances.

Merchandising program

The program is organized around five main geographic regions, and in each region a merchandiser is responsible for visiting each store a set

Continued on page 38



Most of CVS's sales remain in health & beauty aids and over-the-counter merchandise.

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Announcing Ambassador's million dollar baby, "My Thoughts Exactly." A card line tested and proved to attract baby-boomers.

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"My Thoughts Exactly" is here—a new line of cards so with-it that it can turn even hardened baby-boomers into steady customers.

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We draw upon more talented designers, writers, researchers, marketers and promotion experts than any other company in the field. And we know more about selling cards than anyone else in the world.

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SPECIAL REPORT: BILLION $ CLUB

Retailers give CVS high marks in operations

Sales growth trends for CVS			
	CVS sales (in millions)	**% increase**	**Freddy's** sales** (in millions)
1979	$336.2	22.3%	
1980	$414.3	23.2	
1981	$499.8	20.6	
1982	$615.8	23.2	
1983	$734.1	18.7	
1984*	$876.6	19.4	$23.2
1985	$1.017 (bill.)	16.0	$42.4
1986 Est.	$1.169 (bill.)	15.0	$65.0

*Melville acquired two-unit chain of Freddy's Deep Discount Drug Stores
**CVS and Freddy's are independently operated divisions within Melville
Source: Melville annual reports

Continued from page 36

through their own DC, and that lets thems stay on top of what is selling.

"Everything is planogramed. Everything is tracked. Their stores are able to order just as much as they sell. No more. No less. That means they're not faced with out-of-stocks that could hurt sales, and they're not carrying more inventory than they need. It's one reason they're as profitable as they are."

Since Melville acquired

In the years since Melville acquired CVS, sales and operating profits for the chain have consistently gone up.

In 1985, Melville's last complete fiscal year, sales were up 16% to $1.017 billion, while operating profits were up 6% to $79 million.

In 1985, CVS accounted for 22% of all Melville's sales and 17% of its operating profits. They did this even though the 592-unit drug division at the time only accounted for 10.7% of all the retail stores operated by Melville.

In 1986, Wall Street analysts say, CVS is turning in an even stronger performance than it did in 1985. Same-store sales are up a little more than 10% for the first nine months of the year, and most analysts who follow Melville are predicting that operating profits will also be up "about 10%."

CVS's performance is impressive because it comes at a time when a lot of chain drug store retailers are suffering from flat sales and poor earnings. But there are external as well as internal reasons for their success, and some sources who know the company well say that the hardest test of their professionalism still lies ahead.

"Up until now," said John Huebner, an analyst who follows Melville for First Manhattan, "they've had the Northeast markets, where they're dominant, virtually to themselves. Their main competition was independents and food stores with pharmacies.

"But now they have Walgreens coming into their markets," Huebner continued, "and in the next four to five years, Walgreens says it plans to have some 150 to 200 stores in the Massachusetts-New York-New Jersey corridor. Pathmark is also stepping up expansion of its Heartland drug stores, and the Purity Supreme Division of Pathmark is reorganizing and they're saying they will be concentrating much more on their drug stores.

"I don't think all this will impact CVS very much at first. I think the independents and the No. 2 chains like Osco will feel the crunch first, but whether CVS can hold onto its market dominance as Walgreens and the others forge ahead is an unanswerable question. Only time will tell," said Huebner.

"I think you're going to see them get more like Walgreens, in the sense that they're going to make more of a pitch to the convenience-minded shopper who likes to use their drug stores for fill-in purchases," said one Wall Street source.

"The bulk of CVS's sales are still in health & beauty aids and over-the-counter products," said this source, "but they are thinking of expanding with a little more gm. They're looking at lines like microwave accessories and deli and dairy case groceries in select stores."

Merchandisers planogram

Continued from page 37

number of times a month.

These merchandisers don't bring merchandise into the store as rack jobbers do, but they, and not the store personnel, write the orders and reorders for the items in their program. They follow through with the planograms, they maintain the planograms and they work with the store's sales staff to make sure that all promotional and seasonal merchandise is properly signed.

They also double-check retail prices to make certain they're correct and up to date.

In fact, TiScreen is 100% hypoallergenic. So it can be used by almost anybody with sensitive skin.

Powerful sun protection

TiScreen's unique formula combines two powerful ultra-violet absorbers, methyoxycinnamate and oxybenzone. According to the dermatologists who've tested it, there's no better sun protection.

And that's protection not only against sunburn but against sun damage that can cause premature wrinkling, brown spots and skin cancer.

Moisturizes, won't wash off

Because sensitive skin is susceptible to windburn and chapping, TiScreen contains moisturizers to keep skin soft and smooth. Its mild, non-greasy formula is easy to use after bathing or under makeup.

And as TiScreen is water-resistant, it won't wash off easily. Although after 40 minutes of strenuous exercise or water sports, we do recommend another application.

Available in SPF 15+ and SPF 8

For fair skin that almost always burns, there's TiScreen SPF 15+ Moisturizing Sunscreen Lotion.

WHAT MAKES TI·SCREEN® BETTER THAN OTHER SUNSCREENS IS WHAT WE DIDN'T PUT IN IT.

Ti·Screen: Created by dermatologists for sensitive skin

Sensitive skin not only sunburns easily, it irritates easily. And, as most sunscreens contain ingredients that can irritate sensitive skin, there used to be no alternative. Red, sore sunburned skin, or red, sore irritated skin.

That's why we developed new TiScreen sunscreen. The sunscreen created by dermatologists for sensitive skin.

No PABA to sting, stain

What we didn't put in TiScreen, people with sensitive skin are better without. Like PABA (para-aminobenzoic acid), the active ingredient in most sunscreens, which stings. Can cause rashes. Stain clothing. And may react with common antibiotic, antihypertensive and diuretic drugs.

No lanolin, alcohol or greasy oils

We didn't put in lanolin either, which can make sensitive skin break out. Or alcohol, which can dry skin. Greasy oils, which can clog pores. Or strong fragrances, which nobody likes.

In independent tests, TiScreen SPF 15+ achieved a maximum sun protection factor rating of "22." That's 22 times the skin's own natural protection!

For medium to fair skin that sometimes burns and sometimes tans, there's TiScreen SPF 8. And for delicate lip and face skin, there's TiScreen Lip & Face Protectant SPF 15+.

So take the doctor's advice

Recommend all three TiScreen products for people with sensitive skin: TiScreen SPF 15+ Sunscreen Moisturizing Lotion, TiScreen SPF 8 Sunscreen Moisturizing Lotion and TiScreen Lip & Face Protectant.

Read the label. Test it against other products. And you'll find that TiScreen is better than other sunscreens because of what we didn't put in it.

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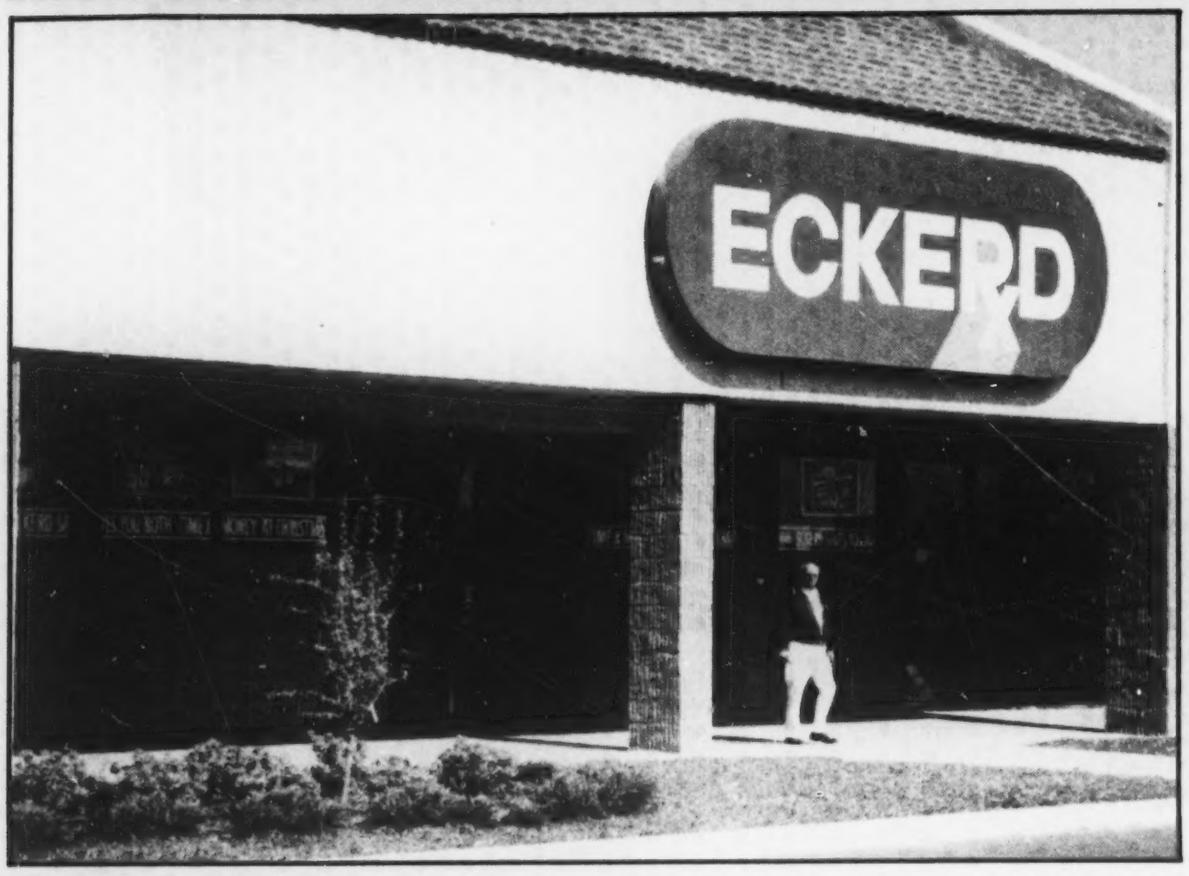


Eckerd will remain opportunistic in its growth strategies, although it is focusing a great deal of energy on its Spartan remodeling program.

The new pharmacy layout is spacious, well signed and offers easy access to the pharmacist.

Eckerd off and running as private company

CLEARWATER, Fla. — "I feel terrific about where we are today."

The speaker: Stewart Turley, chairman and ceo of the Jack Eckerd Corp.

Eckerd recently completed its first six months as a private company following the leveraged buyout by its management, and its performance, according to Turley, is "right in line" with projections made in the Proxy Statement prior to shareholder approval of the deal.

"The debt level is below what we expected," Turley told *Drug Store News*. "The cash flow is a little better because the interest rate is lower, and the operating profit is pretty close to target."

What's more, the chain just closed a deal to buy 32 Shoppers Drug Mart stores in Florida from Peoples, which operated the Florida division for its parent company, Imasco Ltd. of Canada.

Still 'opportunistic'

Turley said the SDM purchase, which added to Eckerd's penetration of some key Florida markets, is "evidence that we're continuing to expand and to be opportunistic."

Turley also said that morale throughout the company has continued to improve dramatically after the uncertainty that preceded the April 30 shareholder approval of the buyout plan.

He said 250 executives had been given stock options in addition to the 30 in the senior management group. Moreover, the employee profit-sharing plan has a 6% ownership stake in the company. "So, there's widespread involvement of people," Turley said.

Deal delayed

The closing of the buyout deal had been delayed for several months while the buyout group studied in detail the effect of the Tax Code revisions on the plan. Turley called the delay "frustrating as hell."

In the end, however, the holdup turned out to be positive, he said, because interest rates had dropped in the meantime, bringing down the cost of the debt.

The chief executive insisted that the positive feelings of the senior management group never wavered during the months of frustrating delays. "We were inside, and we knew the situation," he said.

In the quarter ended July, its first as a private company, Eckerd filed a report with the Securities and Exchange Commission showing an operating profit of $43 million before interest and amortization expenses ($10 million after). But because of the amortization of assets writeup and depreciation expenses, the company reported a loss for the quarter of $53 million. That noncash accounting loss had been anticipated, and, in fact, the company had projected a loss of more than $200 million for the year.

Turley said the noncash loss has nothing to do with the underlying health of the company. "We're really managing the company for a positive cash flow after paying debt costs," he said. "We had a positive cash flow in the quarter of $21 million."

Uncluttered convenience

In its drive to improve its performance, Eckerd is placing a lot of emphasis on a total remodeling of its stores to give them a clean, uncluttered look and greater shopping convenience.

In the new, so-called Spartan layout, expanded greeting cards sections are positioned next to cosmetics and women's hosiery at the front entrance in an effort to appeal to that 70% majority of Eckerd shoppers who are women.

In addition, overhead signing has been improved to make the stores easier to shop. The new setup puts a mini food department with refrigerated coolers for milk and other beverages up front, thus enhancing the convenience feel of the store.

Barriers to easy shopping, like floorstands and a crossing gondola that used to act as a traffic flow director, have been eliminated. The merchandise mix has been revised to emphasize core drug store categories.

Turley said the new Spartan layout had been introduced in 230 stores so far, most of them in Florida. "We've wound down for Christmas," he said, "but we'll pick up again after the first of the year."

Targeting older stores

Although the ceo said next year's remodeling plans had not been finalized, the majority of the 250-300 stores scheduled for changes would be outside the Florida area. "We're really taking a look at the needs of some of the older stores," he said.

Eckerd concentrated the program in the Sunshine State this year, he said, because management wanted the remodeling teams to be operating "closer to home" in the first wave and also because some of the chain's older stores are in Florida.

This past year, the chain remodeled at least five stores in every district to give them a flavor of the program, Turley said. Next year the bulk of the stores will be in the Charlotte district, in Atlanta (Georgia and Alabama) and in the Houston and Dallas districts. Louisiana will get a few and so will Florida, Turley said.

Turley said there would be some small modifications of the layout next year, "but nothing significant."

Response 'favorable'

He said consumer response to the changes had been positive. "We've done some research which verifies that there is a favorable response," he said, but he would not say to what degree that response had been reflected in cash register rings.

"Obviously we feel good about it or we wouldn't be doing another batch next year," he added.

Turley said the Spartan layout changes were "not as dramatic" as the race track format that the chain had experimented with. He said that Eckerd had learned a number of things from its race track stores, which it incorporated into the new Spartan layout.

"But basically," he said, "we went back to a straight line layout because of our store size and because it's more efficient."

Turley said that despite some of the "wrenching" economic news coming out of Houston and to a lesser extent other Texas markets, Eckerd has no plans to exit that market.

"We're going to be looking at those Texas markets opportunistically," he said, adding that "Houston is still a major population center and eventually it will be a healthy market."

Print ad cutback

But the chain has cut back on its print advertising, he said. "Everyone, not just the chain drug industry, has gotten into a 'tabloid rat race,' rushing to see how many tabs we can add," he said.

He said that in doing so companies had shifted too much business emphasis to the promotional side and too little to the day-in-and-day-out sale of merchandise.

He added that as a private company Eckerd will be able to sacrifice some promotional sales by cutting back on print advertising in order to re-emphasize the sale of everyday items and the chain's position as a convenience business.

"We're repositioning ourselves to some degree," he said.

Turley said there would be no cutbacks (though there might be some modifications) in television advertising for Eckerd, which has turned up

Continued on page 40

Eckerd highlights

1968: Florida Eckerd opens 100th store.

1970: Eckerd of Florida renamed Jack Eckerd Corp.

1970: Jack Eckerd Corp. acquires 42 Mading-Dugan stores in Houston.

1971: Jack Eckerd Corp. fills 50 millionth script.

1974: Jack Eckerd Corp. acquires 81 Ward drug stores in Dallas.

1976: Jack Eckerd Corp. reaches 500 stores.

1977: Jack Eckerd Corp. merges with Eckerd of North Carolina.

1978: Eckerd reaches $1 billion in sales.

1979: Eckerd opens 1,000th store.

1986: Eckerd goes private in leveraged buyout by management.

Jack Eckerd Corp. sales and earnings

Year	Sales (billions)	% change	Earnings (millions)	% change
1983	$1.97	—	$71.7	+ 1.5%
1984	2.21	+12.1%	85.4	+19.1
1985	2.51	+13.3	– 8.3	—
1986*	1.31	—	34.0	—

*1986 is for six months ended Feb. 1; all others are fiscal years ended July.
Source: Jack Eckerd Corp.

SPECIAL REPORT: BILLION $ CLUB

Spartan prototype features a cross aisle with promotional tables.

Accelerated remodeling plan aims to increase returns

Continued from page 39

consistently at the top of the list of big TV spenders among drug chains.

The Eckerd chief executive also said the chain would be cutting prices in some areas. He conceded that consumer perception in some markets was that Eckerd was high-priced.

He said that Eckerd wants "to soften that perception" over a period of time. He pointed out that price surveys have shown that Eckerd stands in the middle.

"Frankly," he added, "that's where we want to be."

Turley also said the chain had been working to improve its out-of-stock problems, and "our service level is better, though I wouldn't tell you all of our problems are solved."

Scanning experiment

Turley said Eckerd was not expanding its experiment in scanning at the cash register, but the chain does have more than 100 stores collecting data on the sku movement through the checkout. These stores have now been collecting information for more than a year, which gives the chain comparable item movement data to work with.

Eckerd plans to add 60 more stores to its panel of POS stores, Turley said. "That will give us a geographic spread."

Will it make the information projectable for the entire chain?

"We think it's projectable right now," Turley replied.

Eckerd stokes growth engines

Year*	No. of stores	% gain
1983	1,319	6.5%
1984	1,423	7.9
1985	1,525	7.2
1986	1,618	6.1

*1986 current; others are fiscal years ended July
Source: Jack Eckerd Corp.

Visionworks

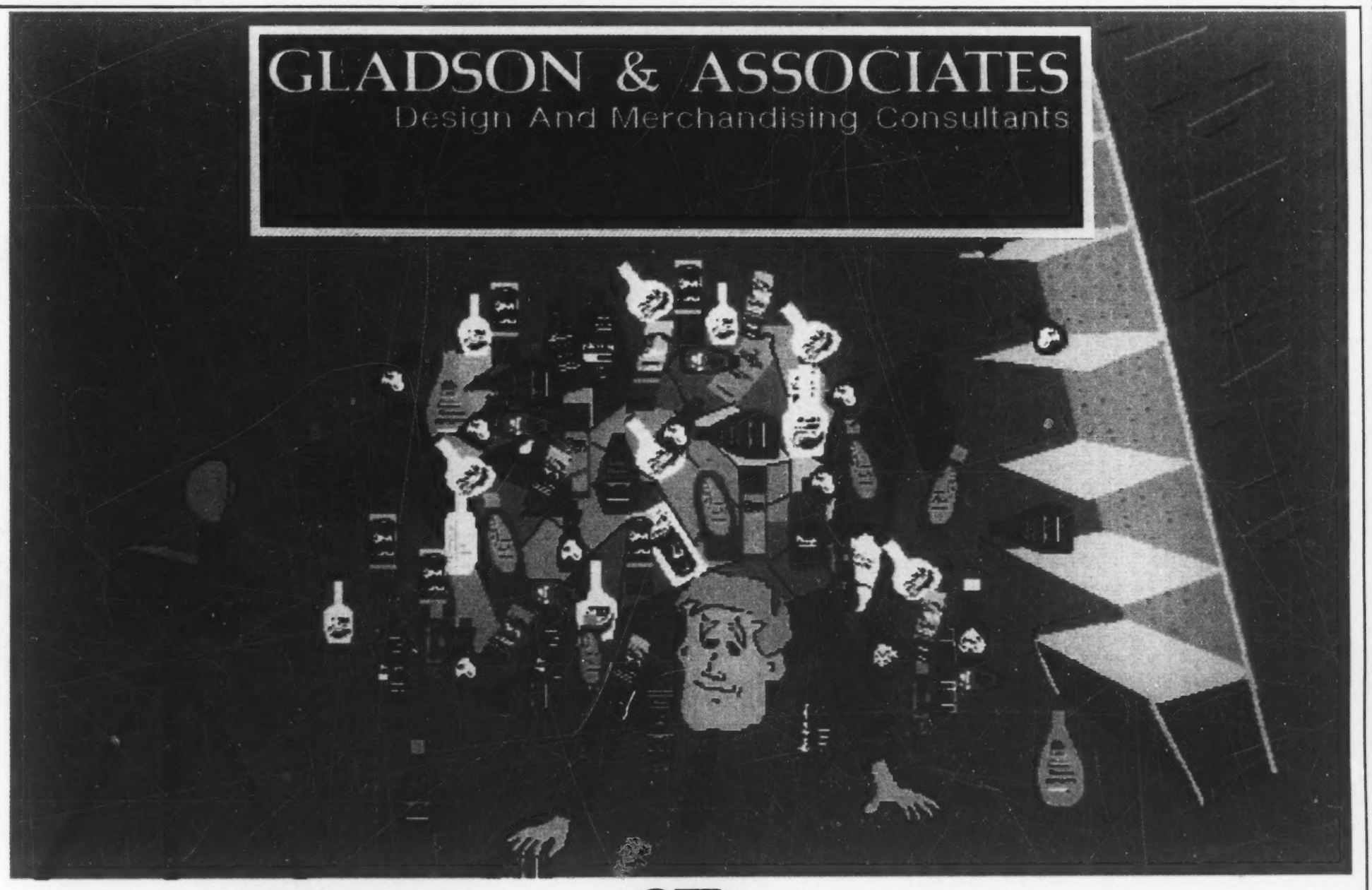
Jack Eckerd Corp. will open three more Visionworks centers right after the first of the year and may add more next year, according to Stewart Turley, chairman and ceo.

The three openings, all in Florida, will bring to eight the number of Eckerd's super eyecare stores in operation.

"We're pleased with the first group of stores that we opened," Turley said, "and we're looking for additional sites."

Turley said the company had learned that the super eyecare business is more complex than the optical centers it operates in many of its stores. "It requires much more extensive capital outlays. Every unit has a laboratory and much more extensive inventory."

He pointed out that a Visionworks store carries 8,000 to 10,000 frames compared to 700-800 in the typical outlet.



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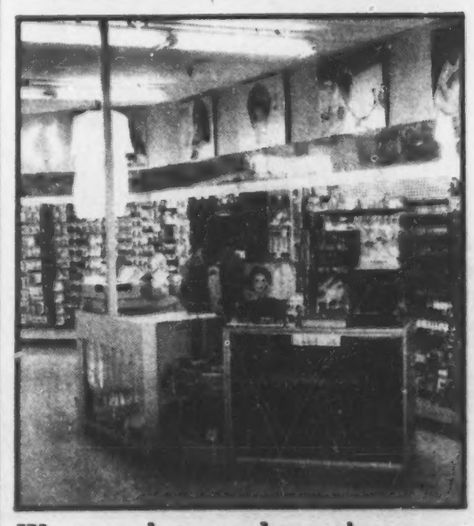


Warm colors and spaciousness mark the new cosmetics layout.

MEILLEURS VOEUX
Herpecin-L®
Cold Sore Lip Balm. "It Works!"
Write: CAMPBELL LABORATORIES, INC.
P.O. Box 812-A, FDR, NY, NY 10150

Longs' cosmetics department set, which the chain developed with the help of Revlon, is being rolled out to all stores.

At Longs' Walnut Creek store, Hallmark card department was moved up front adjacent to cosmetics to give more exposure to high-impulse, high-margin greeting cards.

Longs per-store sales outpace industry's

WALNUT CREEK, Calif. — Considering the competition for attractive retail sites in Longs' primary markets and the company's conservative approach to financing, its growth in the past two years has been notable.

Longs opened 17 stores in fiscal 1985-86—10 in the final quarter alone—and should add another 15 by the time the current year closes in January. In fiscal 1987-88, Longs will launch perhaps another dozen.

Stores range from 15,000 to 40,000 sq. ft., but the typical recent superstore prototype is 26,000 sq. ft. Despite the size, Longs manages to generate the highest sales per square foot—more than $400—among the major chains, as well as the highest average sales per store—more than $7.5 million.

Expansion's impact

Longs' rapid expansion has not been without growing pains. In opting for heavier capital spending for new stores, the chain sacrificed some short-term gains. Flat earnings in the last half of fiscal '86 and the first half of this year were partly the result of this strategy. They also slightly tarnished Longs' Olympian reputation on Wall Street.

Reputations are quickly repaired, however, when profits rebound, and Longs expects its investment in new stores to pay off in future earnings growth as the stores mature.

Moreover, other factors that put a brake on Longs' earnings growth, including a sharp increase in insurance costs and a drop in interest income, should have much less impact on next year's earnings comparisons. The reduced corporate tax bite will also help.

"The fourth quarter should be good, and we plan on going uphill from there," says William Combs, vp-administration and treasurer.

Looking ahead

Some analysts are forecasting that the fourth quarter will see a 12¢ increase in earnings per share to 52¢ from 40¢ in the dismal fourth quarter of last year. That would bring Longs' earnings per share for the year to $1.78, up from $1.74 in fiscal 1985-86. But it's beyond this year that Longs' management is looking to. Some analysts believe earnings per share will hit $2 in fiscal 1987-88.

Longs continues to have one of the strongest balance sheets in the industry, with no long-term debt and a stake in real estate that's hammered deep into Western bedrock. Almost 60% of its stores are company-owned and 40% of its stores sit on company-owned land.

Takeover-shy

Ironically, it's numbers like those that caused some worries at Longs' Walnut Creek headquarters. Top executives have made no secret about their concern that the company's glittering balance sheet and solid real estate holdings might make it an attractive takeover candidate for a corporate raider.

So Longs has worked hard to set up defenses, and is now bristling with armaments designed to ward off attack. "Of course," as one observer said, "the best defense is to keep the price/earnings ratio high."

Part of the strategy includes a plan to buy back up to 2 million of Longs' almost 22 million common shares outstanding.

The buyback plan will not only "help to ensure our continuation as Longs Drug Stores," says Bill Combs, but will also enhance the value of the shareholders' stock. About 30% of that stock is controlled by the Long family, and only about a third by institutions.

Employees' stake

Continuation as Longs Drug Stores is important to the company's employees as well as its management. That's because Longs has evolved under a decentralized management system that places a great deal of operational authority in the hands of store managers and their staffs.

"We have over 200 ceo's out there," quips one executive, referring to the store managers. Indeed, the managers have an unusually powerful say, almost like feudal lords, over their retail domains.

They can hire and fire, of course, but they can also order or not order and partake or not partake in chainwide promotions. Thus the managers, assistant managers and department heads,

Continued on page 44

Longs highlights

1954: Longs unveils its first store in Hawaii and also its first outside its California home base.

1977: Longs opens its 100th store, in Hawaii.

1982: Longs reaches $1 billion in sales.

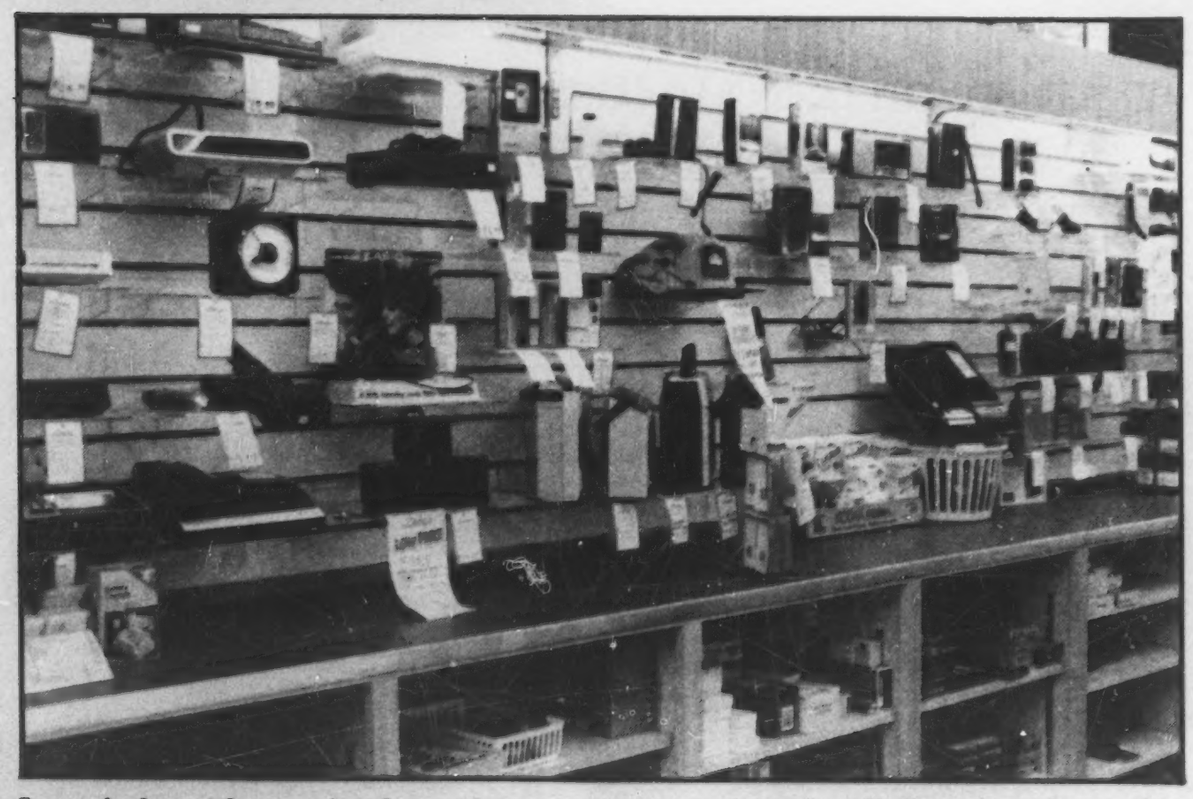
1985: Longs opens first stores in Colorado market.

1985: Longs opens 200th store, a 15,000-sq.-ft. unit in St. Luis Obispo, Calif.

Longs 5-year financial data
(in millions)

Year	Sales	Net income	Total assets
1986	$1,481	$37.7	$411.3
1985	1,376	40.1	360.6
1984	1,214	36.4	322.6
1983	1,123	30.9	287.4
1982	1,005	30.3	273.2

Fiscal year ended Jan. 31
Source: Company reports



Longs' photo/electronics department uses a new slotted wall fixture and movable plexiglass shelving to display items according to varying space needs.

Special events spell success

Decentralized decision-making works well for Longs, but so do chainwide events, as the company proved with its recent "OctoberBest" festival.

The event—a play, of course, on the German OctoberFest—drew many additional customers through a four-week promotional blitz that featured a prize sweepstakes: 10 Suzuki Samurai automobiles were given away.

The campaign was kicked off with a chainwide roto ad and was followed by three weeks of local support from Longs' 70 different ad groups in the continental United States.

Longs also used a lot of radio ads during the promo. "We probably exposed Longs more during that period than any other," says Phil Paz, vp-merchandising and sales promotion.

One key to the success of the promotion was the heavy participation of store employees in a display contest that featured the OctoberBest theme. A prize of $1,000 was given to the winning store in each of 10 districts, and $500 went to the runners-up. Many of the winners used colorful Halloween or harvest themes.

The event, according to Paz, was "pretty much vendor-funded. Our volume is so tremendous that vendors just stand in line to be a part of it."

This was the second such chainwide promotional event Longs has sponsored. The first, built on the Lady Liberty theme, was held last February.

Paz says Longs will be sponsoring similar events in the future, probably two a year. "We enjoyed tremendous success," he says.

SPECIAL REPORT: BILLION $ CLUB

Talented managers at core of Longs customer service

Continued from page 41

right on down to the clerks, cosmeticians and pharmacists, have a stake in retaining their own distinct "company culture." Longs' employee profit-sharing plan also owns around 10% of the company's stock, which increases that stake.

Longs' decentralized system also means much less reliance on centralized distribution. Each store acts as its own warehouse, with about one-third of the typical 26,000-sq.-ft. store given over to backroom operations.

Centralized distribution of some goods, largely seasonal and imported, has been on the increase, however, as the chain seeks to use its enormous purchasing power to hammer out the lowest prices on promotional items.

'No forced merchandise'

"There has been some increase" in the merchandise bought centrally and redistributed to the stores through smaller DCs in northern and southern California and Hawaii, says Bob Long, president and ceo. "But there is no forced merchandise," meaning the managers continue to have the final say on what appears on their shelves.

Longs store growth

Year	No. of stores	Total sq. ft.*
1986	208	5,272
1985	191	4,854
1984	178	4,507
1983	173	4,360
1982	162	4,089

*In thousands
Fiscal year ended Jan. 31
Source: Company reports

Bob Long, who, like most executives at the company, came up through the ranks and served as manager, puts a lot of stock in the managers' ability to carry out the company's objectives.

Relies on managers

"We have a lot of talent out there," Long says. "The store manager is pretty darn close to the customer and is able to anticipate and react readily to that customer's needs."

Reacting locally to customer needs is the central core of Longs' approach to business. In order to service those needs better, the chain has stepped up its training, especially in such departments as cosmetics and photography, where more informed service can generate plus sales.

Longs has a small cadre of trainers in the field whose sole mission is to keep store personnel up to date on the latest advances in those two key core departments.

Pharmacy is another area in which service is crucial. So Longs recently reconfigured its pharmacy department layout to bring the pharmacist closer to patients.

Remodeling policy

In the remodeling area, Longs tries to keep all stores up to date on a year-to-year basis, rather than completely remodeling a certain percentage, say 10%, of the oldest stores every year.

"The easiest way to see it is to look at a new store and one that's 15 years old," says Bob Long. "In many ways it would be difficult to tell them apart."

Longs manufactures its own fixtures at a plant in Benicia, Calif., not to save money, according to Ron Plomgren, senior vp-development, but to assure better quality, greater longevity and quicker delivery to the stores. All of the fixtures are modular, so they can be used in any store.

"Our fixtures don't cost less," Plomgren explains. "But we take that profit margin and put it back into higher quality and longevity. A lot of our fixtures go back to 1968, but it would be difficult to tell that by looking at them."

Longs has completed a four-year program to develop and install pharmacy computer systems throughout the chain. The chain uses Hewlett-Packard hardware and company-developed software. The system also handles cash receipts and electronic mail, and Bob Long says the company is looking at other applications as well.

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The Jr. stores target smaller trading areas.

Thrifty uses two formats to extend its market reach

LOS ANGELES — Thrifty Jr., the downsized version of Thrifty's conventional drug store, is the beanstalk of the chain's expansion program.

By opening 25 Jrs. per year, Thrifty will double its annual new store growth rate. Thrifty is also adding 25 conventional Perfectos per year.

The Jr. format burst onto the retailing scene early in 1986 as the result of three rapid-fire acquisitions: 15 Drug Kings in February, 12 Guild Drugs in April, and 4 Guy's Drug Stores (northern California) in August.

In addition, Thrifty signed sub-leases with Ralphs Grocery to build 4,500-sq.-ft. Jrs. in the lobbies of 10 Giant superwarehouse stores in southern California.

In a matter of months, the Jr. division grew from a scratch start to 41 stores.

Jr.'s appeal

Why has Jr. (3,000- to 11,000-sq.-ft.) become the darling of Thrifty Corp. (now a wholly owned subsidiary of Pacific Lighting)?

Leonard Straus, Thrifty chairman, states it succinctly: "With all the volume we do in California [467 stores], we still reach less than 50% of the consumers."

The Jr. format enables Thrifty to reach more consumers by going into areas that can't support a full-size 19,000-sq.-ft. Perfecto. Jr. stores target trading areas of 8,000 to 11,000 people.

The overriding reason for going to Jr., of course, is that it is highly profitable. Because of the convenience factor, especially in key downtown locations, Thrifty can achieve 30%-plus gross margins. Moreover, inventory investment is less than a conventional drug store because Jr. "creams" the fastest movers and carries fewer sku's.

Thrifty expects Jr.'s productivity to be "several hundred dollars per foot and to increase as the store benefits from Thrifty's aggressive advertising," according to a Thrifty Realty Co. source.

Economies of scale

In addition, the stores will derive economies of scale from Thrifty's centralized distribution, buying, accounting and EDP systems. Then, too, Jr. has instant name recognition.

True, Jr. is the driving force of Thrifty's current marketing program, but long before Jr. became a gleam in the corporate eye, Thrifty had topped the billion-dollar sales mark. So there were other contributory factors—and they included:

Diversification. It was long in coming. Forty-two years after its founding, Thrifty acquired Big 5 Sporting Goods when that company operated 18 stores. Now there are 90. Over the past 15 years, sales have increased at an annual compounded rate of 22.2% and profits, 24½%.

Two years later—in 1973—Thrifty acquired Newman Importing, with good results: annual compounded growth rate of 17% on sales and 20% on profit.

But not all acquisitions have performed as well.

Thrifty's most glaring failure was Trak Auto West, owned 50% by Thrifty and

Continued on page 46

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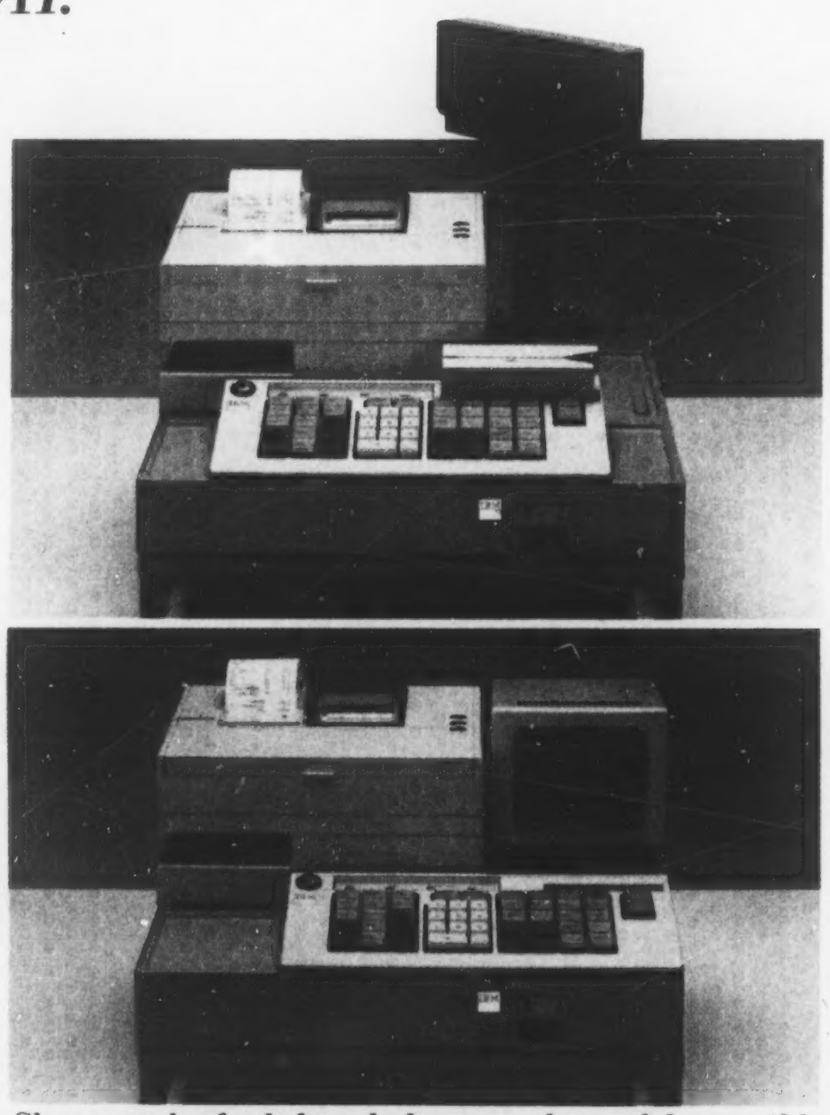

Shown to the far left and above are three of the possible configurations of the IBM 4683 Point of Sale Terminals.

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SPECIAL REPORT: BILLION $ CLUB

Thrifty strategies meet challenge of change

Continued from page 45

50% by the Dart Group.

After being on the block for six months—and after Thrifty had lost $11 million in three years—Thrifty sold its share to the Dart Group. In so doing, Thrifty paid a hefty price by contributing $11.7 million to Trak Auto West's capital in return for being relieved of $40 million in loan guarantees.

Along with Trak Auto West, Thrifty sold its 34% interest in Crown Books to the Dart Group. Unlike Trak, there was no trail of red ink plaguing Crown because Crown had been profitable almost from the start. And Thrifty realized a good profit when it sold its share of the discount book chain for $37 million. Thrifty bought into Crown for $12 million in 1980.

Outside of the dollars-and-cents consideration, insiders say Thrifty sold both Trak and Crown because the drug chain did not have the operational control it wanted. In other words, Dart called the shots, and that's not Thrifty's style.

Pharmacy. For many years, pharmacy had been a thorn in Thrifty's profit side. Fiscal 1979 was the first time in 50 years that Thrifty's prescription department made money. But Thrifty failed to sustain the pace and slipped back into the red the next year.

Thrifty growth trends
(in millions $)

FY end 8/31	Corporate sales	Corporate net	Thrifty stores at year end	Big 5 stores at year end
1982	$1,126	$18.3	533	62
1983	1,187	22.5	537	65
1984	1,299	27.9	542	71
1985	1,404	31.9	555	86
1986	1,501	25.0*	583	88

*Full year net unavailable at presstime. This is net for the nine months ended 5 31 86, on sales of $1.1 billion.

Thrifty reacted by launching a dramatic turnaround program that boosted Rx volume from 9% of total store sales to 14½% in five years—and put Rx firmly into the black.

The renaissance of Rx is traceable to three major developments:

1. Aggressive promotion of third-party plans. Thrifty now has contracts with almost 100 organizations—mainly corporations and unions.

2. An increase in productivity due to pharmacy terminals. This has been achieved by going from double shifts to single shifts in some stores, thereby reducing labor costs.

3. Bonus system for pharmacists. The bonuses, which apply to both single- and double-shift stores, are based on filling scripts in excess of a pre-set number per day.

Computer Systems. Thrifty had come lately to self-service cosmetics and liquor as well as promotional food, and that also happened with in-store computers. But once the chain decided to move, it was by leaps and bounds.

Early in 1985, Thrifty entered into a $60 million joint venture with IBM to develop and install a comprehensive in-store computer system over the next five years. The system includes IBM Series 1 pharmacy computers and POS systems, using an IBM Series 1, and six or more IBM personal computers in each store.

The system has four major applications: POS registers, direct store delivery system, store inventory management system and energy management/labor scheduling.

Thrifty markets

State	Store counts
California	494*
Arizona	34
Washington	18
Nevada	12
New Mexico	11
Utah	8
Idaho	3
Oregon	2
Wyoming	1

*Includes 27 Thrifty Jr. stores
Source: Thrifty

Sales and profits. Sales have increased for 56 consecutive years, and earnings have improved in 29 of the last 31 years.

In addition, Thrifty has recorded an average return on equity of 18% over the last five years.

That equity return was one of the reasons Pacific Lighting was drawn to Thrifty as a potential acquisition.

Says Paul A. Miller, chairman of Pacific Lighting: "The 18% return on equity is above the levels currently permitted Southern California Gas Co., [owned by Pacific Lighting] by the regulatory authorities or achieved by our other lines of business." These include oil and gas exploration and energy production, land development and financial services.

Miller proposed merger during lunch with Leonard Straus, and after turning down countless suitors over the years, Straus said, "yes."

That merger succinctly dramatizes the reason for Thrifty's success: They met the challenge of change.

Thrifty highlights

1929: Opened first store in downtown Los Angeles.

1942: Opened one of nation's first self-service drug stores. At that time Thrifty operated 58 stores with $17 million in revenue.

1953: Introduced superdrug stores in the 20,000-30,000-sq.-ft. range

1971: Bought Big 5 Sporting Goods chain.

1973: Bought Newman Importing.

1977: Changed name to Thrifty Corp., to reflect broadened scope of its operations.

1979: Celebrated 50th anniversary.

1981: Reached $1 billion in sales.

1986: Acquired by Pacific Lighting Corp.

Milestones of growth

100 stores — 1953
200 stores — 1963
300 stores — 1968
400 stores — 1973
500 stores — 1977
600 stores — 1986-87

Streamlining is Perfecto's key to success

Perfecto is a derivative of "perfect," and that was Thrifty's ideal when the prototype was launched in the 1970's.

Perfecto's merchandising and operating concepts are responsible for sales increases of up to 100% in remodeled stores. Currently, 79% of Thrifty conventional stores have been given the Perfecto treatment. All stores should be completed by 1988 or 1989.

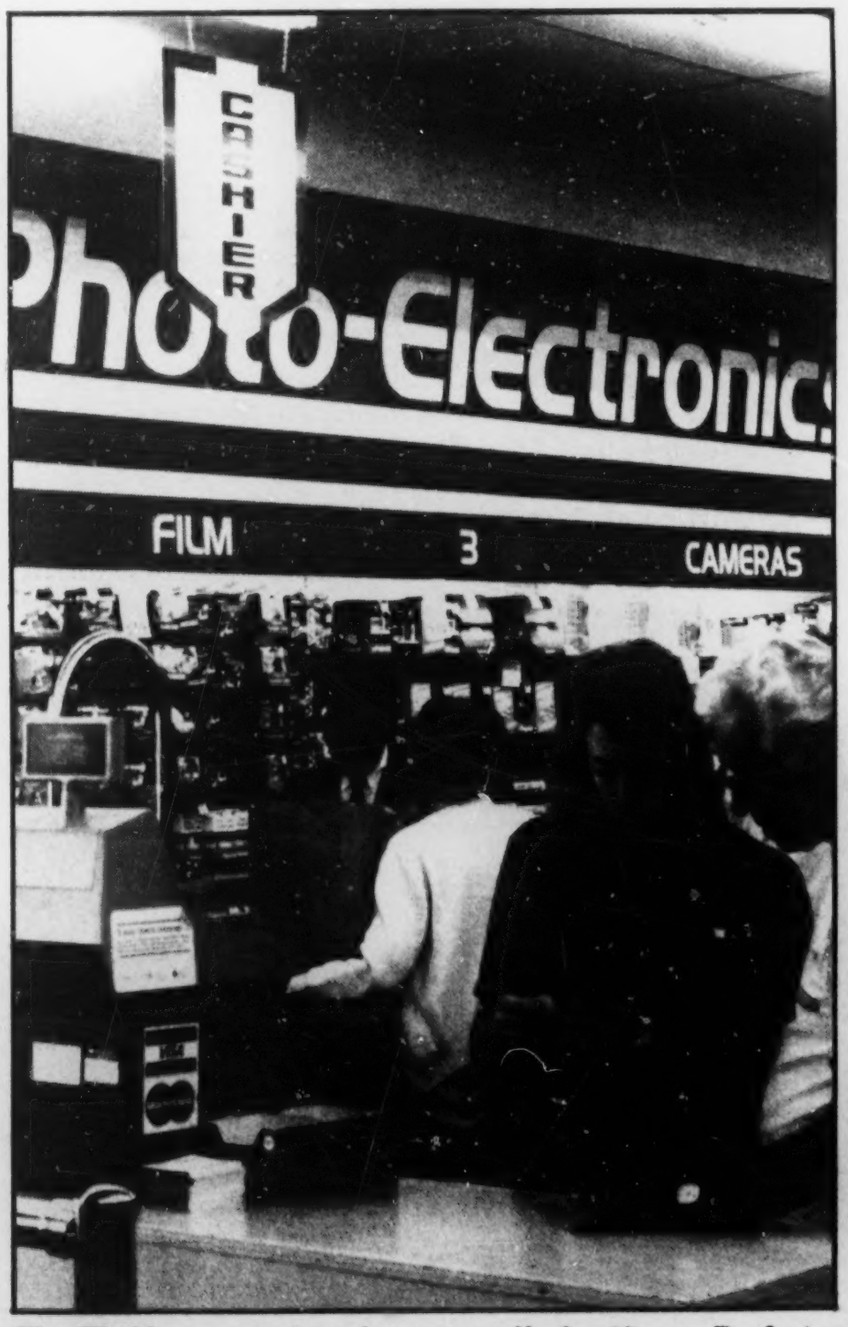
The Perfecto operating philosophy is to clean up the stores, beef up the payroll, strip away slow-moving items and replace them with fast-turn national branded consumables, and, at the same time, expand private label and promote it aggressively. The end result: fewer out-of-stocks, more repeat business—and less shoplifting, because more clerks are now on the floor.

One of the first moves in Operation Turnaround was eliminating 4x4 promotional tables just inside the turnstiles where 12 to 17 were grouped. When the tables sold down, they were an eyesore at the entrance.

Thrifty took a page out of Longs' and Pay Less' promo book by placing a dozen of the 4x4 tables along the cross-aisle and policing the sell-through.

Thrifty had been slow to move to self-service cosmetics, but with Perfecto, a boutique-like department emerged. Instead of showcase counters with stock behind the counters, Thrifty went to etageres and island fixtures.

In other moves, apparel was sharply reduced, auto supplies were stretched to 64 ft. and a strong statement was made for promotions/seasonals with more gondolas, punctuated with 4-ft. platforms in the aisles.



The Thrifty expansion plan now calls for 25 new Perfectos and 25 new Jr. format stores each year.

Thrifty has raised prescription volume dramatically in the past five years by pursuing third-party plans, adding pharmacy terminals and establishing a bonus system for pharmacists.

SPECIAL REPORT: BILLION $ CLUB

Pay Less expansion picks up under K mart

By Lou Karney

WILSONVILLE, Ore. — Pay Less NW stepped up its expansion pace since being acquired by K mart—and the difference is significant.

Pay Less opened 40 stores in its first year under K mart and will follow with 40 to 50 per year after that. This compared with 5 to 10 stores opened each year by Pay Less prior to the acquisition.

By year-end, Pay Less will be operating 193 Pay Less drug stores, 7 Key Drug stores, 2 Value Giant deep discount drug stores and 18 Wonder World discount stores.

No rush to go national

There has been talk of Pay Less becoming a national chain, but not in the foreseeable future, according to Ron Schiff, president of Pay Less. "There is plenty of growth in our existing territory—Washington, Oregon, California, Idaho and Nevada [one store]—now." Expansion beyond those five state will most likely follow a contiguous pattern.

Pay Less could expand rapidly because it had manpower and systems in place. This was evident by sales and profits in the last fiscal year (ended Jan. 31, 1985) before the K mart acquisition. Pay Less hiked profits 26% and sales 7.8%. That stellar performance came on the heels of an equally impressive fiscal 1984, when earning rose 28% on a sales increase of 9%.

Pay Less has also posted the second highest per-store volume in the nation (topped only by Longs) for years.

Seasoned management

What keeps Pay Less in high-drive, year after year?

Some say it's a management team experienced in all levels of operations.

Except for the head of real estate, everyone in upper management began at store level. That's where co-founders Peyton Hawes and Bill Armitage started when they opened the first Pay Less in 1944. Since then, hands-on management has been their legacy. In 1960, Ed Hart (now chairman) was manager of Pay Less' Coos Bay, Ore., store and hired Ron Schiff, a pharmacist who is now president.

State-of-the-art computer systems also help. In 1974, Pay Less became the first drug chain in the country to install pharmacy terminals chainwide.

Its high-tech network extends to a highly automated distribution system.

To evaluate DCs

Pay Less' Wilsonville DC has a half-million sq. ft., and Woodland (near Sacramento) will have almost as much when it opens in January. Until Woodland opens, Pay Less is leasing 400,000 sq. ft. in the Portland area. When Woodland is operational, Pay Less will evaluate all of its distribution facilities and decide on future needs.

Pay Less' effectiveness at store level is sparked by sophisticated shelf management and inventory control. By the end of this year, cash registers in all stores will be on-line with a Series

Continued on page 49

Under K mart ownership, Pay Less has quadrupled its store expansion plans to 40 per year.

Pay Less markets

State	Store counts
California	108 (includes 2 Key Drug)
Oregon	47 (includes 3 Key Drug)
Washington	37 (includes 3 Key Drug)
Texas	8 (Wonder World)
Idaho	7
Nevada	5
Colorado	2 (Wonder World)
Oklahoma	2 (Wonder World)
New Mexico	1 (Wonder World)

Source: Pay Less NW

Pay Less highlights

1944: Opens first Pay Less store (in Albany, Ore.).

1967: Acquires six-store House of Values, its first acquisition.

1974: Becomes first drug chain in country to install pharmacy terminals chainwide.

1976: Buys 22 Value Giants in California.

1976: Opens 50th store.

1979: Enters Idaho market by opening four stores in Boise on same day.

1980: Buys Pay Less Oakland, enabling chain to boost store count from 89 to 144.

1982: Re-enters Nevada market with store in Elko. In 1981, Pay Less sold its two Reno stores.

1984: Opens its first downsized Key Drug in Sequim, Wash.

1984: Opens first Value Giant deep discount store in Portland—a conversion of a 30,000-sq.-ft. Pay Less superdrug store.

1984: Buys six drug/home center combos from Pay 'n Save—most of the stores are in the Sacramento area.

1985: Sells chain to K mart for $500 million.

1986: Reaches billion-dollar sales mark.

1986: Opens first Wonder World discount stores—conversions of K marts and T.G. & Y. Locations follow the Pay Less pattern—small towns.

Pay Less NW growth
(in millions $)

FY Ended 1/31	Store counts	Sales	Net income
1982	143	$758.5	$16.6
1983	147	784.7	19.4
1984	149	852.9	24.7
1985	162	925.0	NA
1986	183	966.0	NA
1987	218*	NA	NA

*Projected
Source: Pay Less NW

Wonder World benefits from parent co. know-how

Wonder World is a 40,000- to 60,000-sq. ft. hybrid that draws on the strengths of Pay Less drug stores, Value Giant and K mart.

From Pay Less, Wonder World borrowed core departments: health & beauty aids, housewares, hardware, candy, tobacco, sporting goods, photo and greeting cards. But no pharmacy. "We will review it again in mid-1987," Ron Schiff said, "but the cost of staffing and the other expenses are simply too high at this time."

From Value Giant, Wonder World borrowed the promotional power of dry groceries—but also added 32 ft. of freezers and 20 ft. of dairy-deli.

From K mart came the apparel department, featuring low price points and good margins.

'Opportunistic buys'

But not all of Wonder World is a knockoff. For additional promotional power, Wonder World has carved out 4,000 sq. ft. near the entrance for in-and-out items, thereby conveying price/value while maintaining good margins. Schiff calls these items "opportunistic buys." Items offered include onetime buys, closeouts, tag end and factory/surpluses. In the first Wonder World (Bozeman, Mont.), for instance, the store sold 400 tents.

At the outset, Wonder World stores will be conversions of medium-size K marts and T.G. & Y. stores, but Pay Less is not ruling out built-from-the-ground-up stores in the future.

There are three Wonder Worlds now in operation: Bozeman (former Woolco location), and Palestine and Nacogdoches (former K marts) in Texas. By the end of 1986, 11 more Wonder Worlds (all T.G. & Y. conversions) will be onstream.

T.G. & Y. plusses

T.G. & Y. sites were added to the original program because the opportunity arose after K mart had asked Pay Less to convert several K mart stores. The big plusses in taking over T.G. & Y. closures are good leases and good locations.

Next year calls for three more Wonder Worlds. This deviates from K mart's expansionist philosophy. But "we want time to study the concept and make changes where necessary," said Schiff.

To manage stores, Wonder World is transferring some Pay Less store managers and is hiring some K mart assistants.

While the long-range success of Wonder World is a question mark at this time, it does have many of the necessary ingredients: a trial-by-experience approach, willingness to make changes, a parent with plenty of expansion dollars and a wealth of merchandising knowledge, and siblings (other specialty divisions) who are anxious to contribute their expertise to help the family prosper.

SPECIAL REPORT: BILLION $ CLUB

Chain draws on parent in apparel rollout

Continued from page 48

1 computer to input data as part of a complete in formation system.

Then there are the store locations. For the most part, the chain has skirted city sites and gone into towns with less than 50,000 populations, where competition is less keen and margins are more stable. Three different size formats (21,000, 23,500 and 30,000 sq. ft.) have enabled Pay Less to tailor stores to sites.

Synergy with K mart

But it's not simply a paint-profit-with-numbers game. More subtleties are at play as Pay Less stores draw on a wealth of specialized knowledge from K mart and its divisions.

Nowhere is this more apparent than apparel, which first surfaced in Pay Less drug stores in April 1986. By the end of the year, 34 Pay Less stores will have apparel departments, and by the end of 1987, there will be a total of 75—both new and existing stores.

The size of the apparel department in Pay Less ranges from 4,000 to 12,000 sq. ft., depending on size of store and the area.

This is how K mart interfaces with Pay Less on apparel: K mart purchases the merchandise and funnels it through its California distribution system for transshipment to Pay Less' distribution centers, where it is code-tagged and shipped to Pay Less stores. Eventually, Pay Less will buy direct and ship to the stores from its distribution centers.

This kind of synergy is also working in other departments—but to a lesser degree than apparel. From Builders Square home center stores, Pay Less had added 30 sku's of hardware items. On H&BA, both K mart and Pay Less will continue their separate ways, treating each as a competitor, even as one learns from the other.

The learning process also applies to computer systems, as each division draws on innovations of the other. For example, K mart will eyeball Pay Less' new DC in Woodland because advanced technology will enable this DC to increase output by one-third to one-half over the system now used in Wilsonville.

There is no combined buying, because on most products, Pay Less is big enough to land the merchandise as cheaply as K mart.

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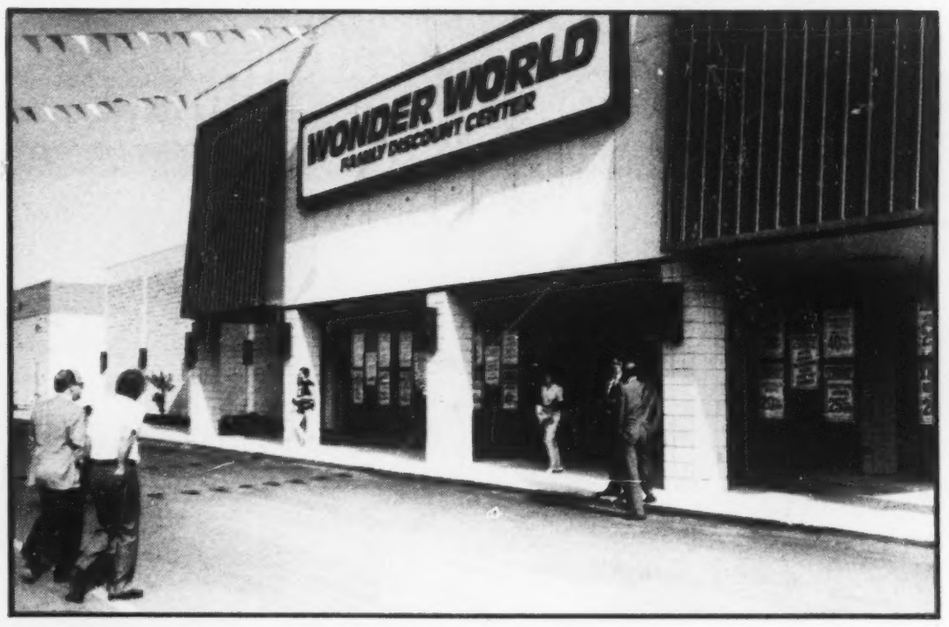
The high level of automation at Pay Less gives Pay Less one of the most sophisticated shelf management and inventory management systems in the country.



The Wonder World format combines many core drug store departments with apparel—but still no plans for pharmacy.

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SPECIAL REPORT: BILLION $ CLUB

Rite Aid moves vigorously to bolster results

By Al Heller

SHIREMANSTOWN, Pa. — Rite Aid has added an entrepreneurial air to its centrally managed chain as one way to build store-level productivity.

The 1,446-store chain, which registered $1.6 billion in sales last year, is moving on several fronts to reverse a two-year earnings slide.

Tighter cost controls, anti-shrinkage measures and continued installations of front-end scanners, pharmacy computers and video rental departments have already shown signs of pushing Rite Aid further into the black.

Incentive plan

Perhaps the most innovative program is an incentive plan for store supervisors and store managers that enables them to earn as much as one-third of their salaries if shrink is reduced enough. Rite Aid is also considering separate incentive programs for pharmacists and distribution managers.

"Now is the time to give our managers—who are all good managers—destiny over their own earning power," executive vp Martin Grass told *Drug Store News*.

What prompted the program was a surprising rise in shrinkage losses during the second quarter ended Aug. 30. The shrink level rose to nearly 2%, Grass said, far above its historic 1.25% rate and the industry average of 1.5%.

Disruptions at stores due to installation of computers and video departments contributed to the rise in shrink, according to a Merrill Lynch report.

'Lean middle management'

The incentive programs are evidence that Rite Aid remains "a low-ego organization with lean middle management," despite rapid store and sales growth the past few years, Grass said.

The first half of fiscal 1987 shows initial results of the giant chain's multipronged efforts to grow sales and profits in a low inflation, highly competitive environment. Sales rose 13% to $841 million, and net income rose 11% to $30 million in the half ended Aug. 30, despite the rise in shrinkage.

That follows two straight fiscal years in which sales rose from $1.15 billion to $1.36 billion to $1.56 billion, but net income declined from $74.3 million to $69.9 million to $62.5 million.

For the full fiscal year 1987, Grass predicted 7% same-store sales gains. He said further that overall drug store margins are "increasing slightly with the growth of generic prescriptions and video rentals."

3 generate 51% of sales

A look at the highest gross margin categories at Rite Aid reveals that pharmacy, private label and video generate 51% of sales, up from 38% five years ago. First Manhattan analyst John Kosecoff predicts they will combine to produce 62% of sales at Rite Aid within three to five years.

In the latest full fiscal year, pharmacy made up 35.6% of sales and private label 13.8%—both rates among the highest in the retail drug industry.

Kosecoff estimates that video will account for 2% of the current year's sales, 4%-6% of pretax earnings and 15%-18% of cash flow.

This all adds up to a particularly strong position for Rite Aid to weather price wars and a sluggish sales environment, while building store margins.

Grass said that the private label sales share will grow "as new stores are added" to the 1,000-sku program. Pharmacy has already expanded to 37% of drug store sales in the first half.

Both are comparatively nonprice sensitive and help to keep Rite Aid "somewhat insulated from intensifying price competition," said Robert Roth, analyst at Merrill Lynch.

He noted, moreover, that nearly one-third of Rite Aid's pharmacies are less than four years old and will contribute more as they mature. He anticipates further pharmacy growth because about one-third of Rite Aid's planned new stores will be freestanding, where pharmacy typically accounts for a greater share of sales.

Capital expenditures

Rite Aid's record $90 million capital expenditures budget this year is another key factor bringing productivity gains and labor savings.

The purchase of VHS tapes to equip an additional 500 stores this year with an average 1,050 titles accounts for $25 million of capital spending. Rite Aid had equipped 868 stores with video rental departments at presstime, and by mid-1987 will "be in all stores we contemplate, about 1,100," Grass said.

Rite Aid is banking on the convenience aspect of its bantam format and neighborhood locations to build video business. The intent is to expose people to pharmacy during the two shopping trips each rental requires. Grass said only that "video has helped same-store sales" and "we'll be one of the strongest operators in the country."

Its frequent 99¢ rental price beats most video store competition. Its selection is far broader than 7-Eleven, which matches Rite Aid on price and convenience.

Grass said Rite Aid is experimenting with new ways to merchandise video, including cashier-operated computers to track inventory and displaying only empty boxes of titles in stock.

Video performance has been so good so far that Rite Aid had to slow the installation of front-end scanners and pharmacy computers temporarily—in order to direct capital spending funds toward video departments.

Puts technology to work

Still, Rite Aid has moved to the forefront in the use of technology to help manage stores.

The chain has equipped 590 pharmacies with computers, plans to have 800 in place by the end of fiscal 1987 and be chainwide by February 1988.

Rite Aid has also installed hand-held or slot scanners in 313 stores, plans to be in 393 by February 1987 and be chainwide by February 1989.

Rite Aid is committed to having some type of automation in all stores within 18 months, Joe Groelly, vp-information services, told *Drug Store News* recently. He said it would take the form of pharmacy computers only or pharmacy computers and scanning with communications to the headquarters computer.

Rite Aid made price removal (elimination of item price marking) and centralized

Continued on page 52

Rite Aid markets

As of May 1, Rite Aid operated 1,403 drug stores in 20 states, primarily in the eastern U.S. They were supplied by distribution centers in Shiremanstown, Pa.; Rome, N.Y.; and Nitro, W. Va. The DC to open next spring in Winnsboro, S.C., will be able to service 500 stores.

Pa.	259	***Mass.***	38
N.Y.	228	***Conn.***	35
N.J.	118	***Ky.***	29
N.C.	105	***Tenn.***	28
Md.	102	***Ga.***	28
Ohio	102	***Del.***	15
W. Va.	96	***R.I.***	15
Mich.	77	***N.H.***	11
S.C.	61	***Ind.***	6
Va.	44	***Vt.***	6

In addition, 27 Encore Books discount bookstores include 20 in Pennsylvania, six in New Jersey and one in Delaware.
Also, 58 American Discount Auto Parts stores include 34 in Massachusetts, seven in New Jersey, six in Rhode Island, four in Connecticut, four in New York and three in New Hampshire.

Rite Aid highlights

1981: Buys Fay's southern division stores.

1982: Readies first Drug Palace test.
Opens 1,000th Rite Aid in Durham, N.C.

1984: Acquires Encore discount book chain and ADAP auto parts chain.
Pharmacy computer and scanner installations hit stride.

1985: Sells Circus World toy chain and closes Heaven variety stores.

1986: Names Martin Grass first executive vp in history of company.

Breaks ground on 265,000 sq. ft. distribution center in Winnsboro, S.C., which will be able to service 500 stores in the Southeast.

Acquires Harris Drug to help dominate Charleston market.

Stockholders authorize doubling of common shares to give extra operations and acquisitions flexibility.

Rite Aid performance trends

(in millions $)

	Fiscal 1982	1983	1984	1985	1986	1987[A]
Sales	$871.6	$1,003.3	$1,149.5	$1,360.5	$1,564.1	$840.8
Net income	39.9	55.0	74.3	69.9	62.5	29.5
Retail stores	963	1,055	1,147	1,351	1,485	1,516

[A]Six month figures for period ended Aug. 30, 1986. Fiscal 1987 ends March 1987. Store counts include 58 ADAP stores and 32 Encore stores.
Source: Rite Aid

Takeovers key part of Rite Aid growth

An ongoing strategy at Rite Aid has been growth by acquisition. About one-third of its store base is acquired stores. Rite Aid's latest purchase, Harris Drugs, marks the Southeast as one area of targeted expansion.

As an example of how quickly Rite Aid brings acquired stores into the fold, Harris was bought in September and reset, remerchandised and given new signage by late October. Executive vp Martin Grass said most will get video rental departments.

The buyout also enabled Rite Aid to outstore competitors in Charleston, the third largest market in South Carolina, as it eyes much of its new store growth in the corridor from Virginia to the Florida Panhandle.

DC under construction

Indeed, construction on Rite Aid's new 265,000-sq.-ft. distribution center in Winnsboro, S.C., is on target, with plans to ship goods by June, Grass said.

The facility will have the capacity to service 500 stores and raise the chain's warehouse capacity to 2,000 stores. "We're right where we have to be," Grass said.

The DC will bring efficiencies in shorter runs and faster turnaround in servicing stores primarily in South Carolina, North Carolina, Tennessee and Georgia. That will leave the DC in Nitro, W. Va., which is currently servicing these markets, free to meet expansion needs elsewhere.

Remodeling ongoing

According to Merrill Lynch analyst Robert Roth, Rite Aid aims to add 10% in retail square footage annually through new store openings and acquisitions and to remodel more than 5% of its store base each year in order to keep stores current.

Coupled with the new store opening program, chairman Alex Grass told a Merrill Lynch audience earlier this year, "we have a systematic plan to expand and relocate every store that is smaller than 6,500-sq.-ft. or is located in less than a 100% location. Last year, 57 stores were either relocated or expanded and 35 stores will be upgraded this year. In every instance, we are able to generate greater sales solidifying our position in the market and subsequently enhancing overall profitability."

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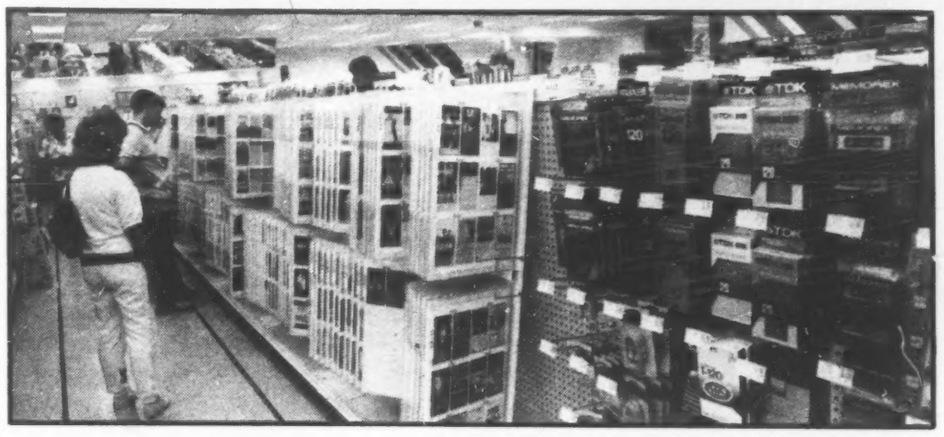


Rite Aid has slowed new store growth plans this year so it could direct more capital expenditures toward video rental departments and in-store computers.

Video, computers head up efforts

Continued from page 50

price control its two main criteria for a front-end data management system.

The integrated Rite Aid system links pharmacy computers with its front-end scanning systems. Pharmacy software is compatible with front-end programs, enabling data to be brought from Rx to the front-end and reside in the front-end system in a separate file. Rx and front-end data can be transmitted together to the headquarters IBM mainframe with a single phone call from the host.

Groelly expects scanning eventually to add 1 to 1.5 percentage points to net earnings, as it helped supermarkets, through such benefits as price control and price removal, shrink control and inventory control.

By the time Rite Aid is done equipping stores with computers, it will have spent a total of $30 million to $35 million, or about $20,000 per store, Grass said.

Drug Palaces offbeat 1 way

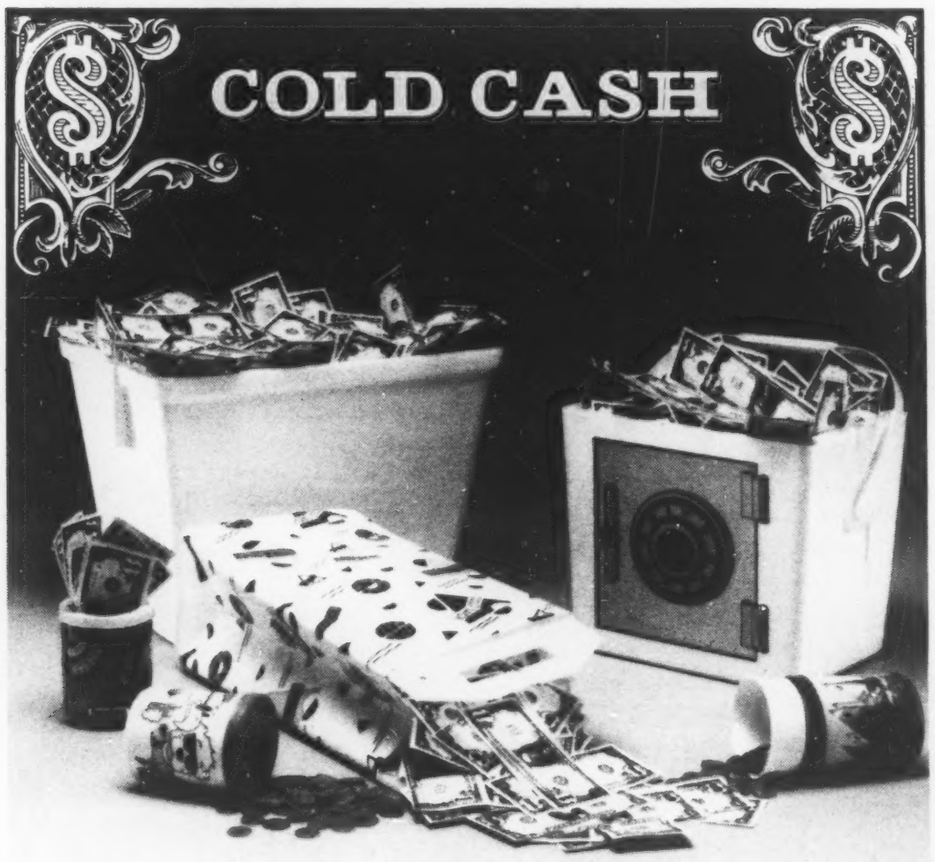
Just a handful of conventional Rite Aids have been converted into deep discount Drug Palaces. It's Rite Aid's way of combatting deep discounter competition.

Rite Aid currently operates 13 Drug Palaces, including some conversions, up from four a year ago, and will open its second in Philadelphia by the end of fiscal 1987 to butt heads with another deep discounter. Seven are 15,000-20,000 sq. ft.; six urban stores are 7,000-9,000 sq. ft.

One of the most unusual aspects of the Drug Palace format is inclusion of Rite Aid private label—since national brands are the key products at deep discounters.

The private label helps to build store margins, of course, but without the risk of devoting a lot of space to unrecognized products. Since Rite Aid sells its private label to supermarkets, convenience stores and drug stores, the brand has high recognition and a good following, said Grass.

The private label's high visibility also limits Rite Aid's risk of incurring consumer wrath over its operation of two store formats with different pricing structures, sometimes in the same neighborhood. Drug Palace's sales of the Rite Aid brand isn't a tipoff to consumers of Rite Aid ownership.



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SPECIAL REPORT: BILLION $ CLUB

Peoples reorients itself in transitional period

ALEXANDRIA, Va. — For Peoples, 1986 has been a year of reversal. Some operating problems plagued the chain and hurt profits, after it tallied its strongest year ever in 1985.

No one appears worried, however, or thinks that Peoples won't remain one of the major retailing forces in the industry.

Imasco officials who visited Peoples recently told analysts that their corporate fiscal 1987 results will not include a performance recovery of the 800-plus-store chain. They're being patient, like a watchful parent, giving Peoples management two to three years to bring profits back to the fiscal 1985 level, stock analysts told *Drug Store News*.

'Lost focus'

Sources close to Imasco related a feeling by the parent that Peoples executives "lost their focus on basic drug store management." They reportedly felt that Peoples has spent too much time trying to develop ancillary businesses such as home health care centers, optical stores, Hardee's food service in drug stores and Bud's deep discount stores.

It's arguable, however, that Peoples is seeking to position itself as a broad health care provider—with eye care and home health care stores—in order to fortify consumers' perception of the drug stores as a preferred place to buy health care needs. After all, the health image is what keeps drug stores distinctive in the marketplace.

Moreover, Sheldon "Bud" Fantle, chairman, president and ceo of the $1.3 billion (annual U.S. sales) chain, is regarded as creative, entrepreneurial and willing to take a chance to build something new.

Peoples executives have told *Drug Store News* that Fantle is an "innovator who will try most things. That's his style."

Grown and experimented

Under Fantle's influence for more than a decade, Peoples has grown dramatically to more than 800 stores in 15 states and the District of Columbia and has experimented with several different business formats that augment the drug store operations.

But when problems compounded this past year—largely in the mid-Atlantic division, which accounts for about half of Peoples stores—Fantle's team had to move fast to get the chain back on track. It's not there yet.

Peoples is producing a 5% same-store sales rise so far this fiscal year, analyst David Cohen of McNeil Mantha said. In the first quarter ended June 30, however, Peoples' operating earnings fell below the year-earlier level. Even so, profitability was better than in the quarter immediately preceding it, and Imasco announced performance was "in line with expectations for overall improvement in fiscal 1987."

Imasco reported further that during that quarter inventories were reduced by about $27 million—indicating the extent of the problem stemming from the rocky startup of a 500,000-sq.-ft. distribution center in Fredericksburg, Va.

Performance in the second quarter ended Sept. 30 was also down, with sources laying blame on failed software at the new DC.

"Merchandise sat, though the computer said it moved, and caused poor use of cube space on the trucks," a Peoples executive said.

Paul Paré, Imasco chairman and ceo, said the DC will be cleared of backed up merchandise, primarily health and beauty aids, by the end of fiscal 1987 in March.

Peoples has pinned high hopes on the DC to service as many as 400 stores from Pennsylvania down to North Carolina and as far west as West Virginia. The facility is expected to save 30% in labor costs and pay back the $24 million investment in seven years.

Some analysts predicted that full fiscal year 1987 operating earnings would show improvement, perhaps to the $50 million range.

Goal upset

What could have been a dream come true for Peoples has turned into a short-term nightmare, and disrupted the chain's progress toward achieving Fantle's 3-2-1 plan: a 3% net-to-sales ratio, $2 billion sales and 1,000 stores.

How far away is Peoples? It has to approximately double last fiscal year's 2.5% operating earnings ratio in order to achieve its 3% net margin goal.

It has to raise annual sales from last year's $1.3 billion level.

It has to add or acquire more than 150 new stores.

That probably won't happen right away.

Training its focus back on existing stores, Peoples is said to be cutting back on new store additions from 60 in fiscal 1986. Sources expect the chain to maintain its remodeling schedule of about 130 a year, because that's a relatively easy way to drive sales and profits gains.

Some might consider that a welcome respite from the approximate 45% expansion in new stores that occurred from early 1984 to early 1986—from 575 stores to 832. That included the takeover of 134 Rea and Derick stores, the introduction of the Eye City optical center, the startup and growth of Bud's deep discount stores and expansion of home health care centers.

One marked reversal of strategy appears to be Peoples' recent abandonment of the Florida market. When Peoples sold the Shoppers Drug Mart stores it was operating in Florida to Jack Eckerd Corp. this fall, it signalled an apparent change of heart.

Peoples had managed those stores for parent Imasco since May 1985, and they were to be a cornerstone of a major push into promising parts of Flori-

Continued on page 54

Peoples Markets

(As of 3 31 86, end of latest fiscal year)

Alabama	6
District of Columbia	42
Florida	31*
Georgia	71
Iowa	20
Illinois	17
Indiana	85
Kentucky	3
Maryland	94
North Carolina	16
New York	2
Ohio	101
Pennsylvania	178
Tennessee	1
Virginia	159
West Virginia	6

Source: Imasco Limited

*Peoples recently sold the Shoppers Drug Mart stores in Florida to Jack Eckerd Corp.

Peoples highlights

1976: Merges with Lane Drug to create 360-store network.

1980: Opens first home health care center in Bailey's Crossroads, Va.

1983: Installs first pharmacy computers.
Buys eight Sav-A-Lot stores and 37 Haag stores.

1984: Acquired by Imasco.
Buys 134 Rea and Derick stores for $85 million.
Readies to debut Bud's deep discount format.

1985: Takes over operation of Shoppers Drug Mart stores in Florida.
Opens computerized distribution center in Fredericksburg, Va., to service mid-Atlantic region, its largest.
Starts to place Hardee's franchisees in drug stores.

1986: Names David Eisenberg executive vp and coo as part of top-management restructure.
Opens Eye City self-service optical center.
Sells Shoppers Drug Mart stores in Florida to Eckerd.

Peoples performance trends

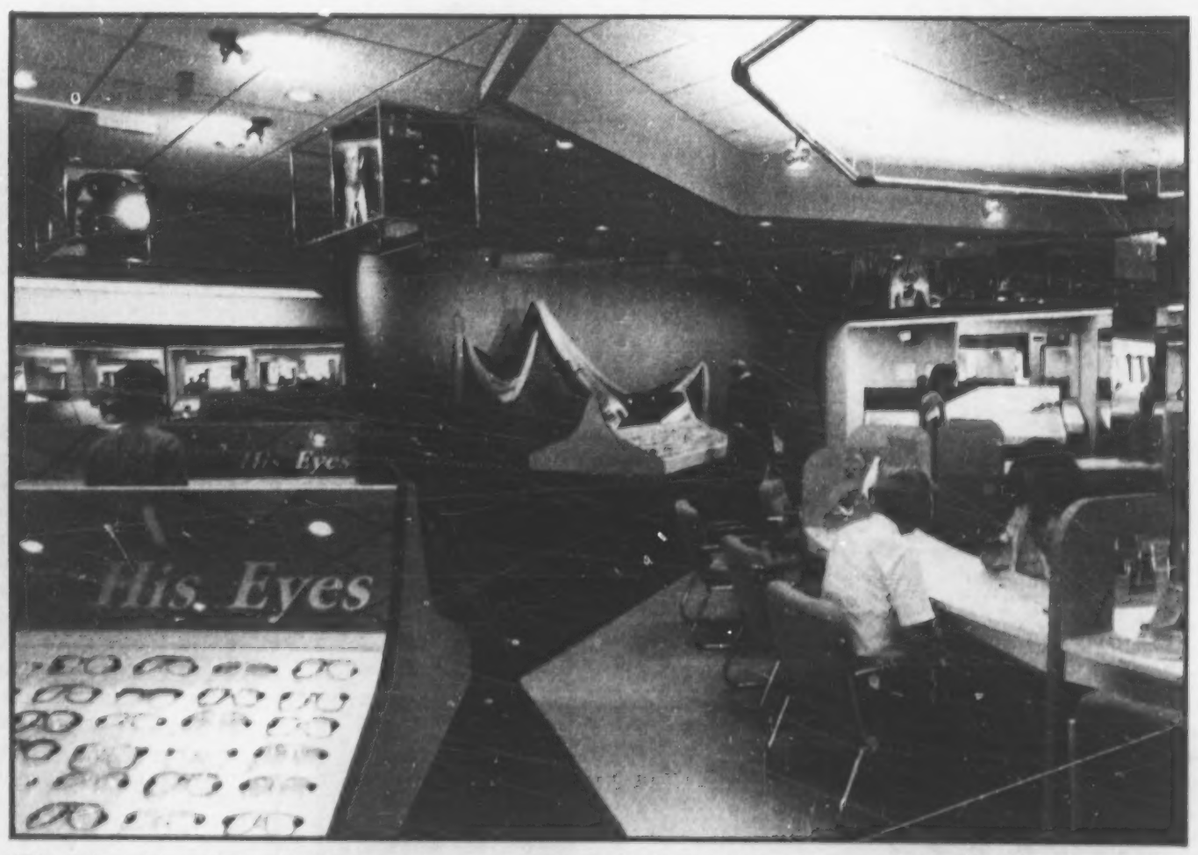
(in millions $)*

	FY end 1982	1983	1985	1986
Sales	$690	$790	$1,030	$1,330
Operating profits	25.5	29.3	47.7	40.1
Stores	527	554	758	832

Source: Imasco Limited

Performance for 1984 wasn't reported separately because Peoples was acquired by Imasco April 1, 1984, and the fiscal year was restated to reflect full-year results. All Peoples results are in U.S. dollars.

Cosmetics is getting a facelift at Peoples with a new planogram that substituted about 500 new sku's for a like number of old ones. Total sku's are about 2,200. Video terminals and beauty consultant programs are being used for image.



The first Eye City optical center opened early in 1986 in Alexandria, Va. The upscale eyeglass store is combined with an optometrics center and a lens manufacturing lab that will produce lenses for Peoples' 58 optical centers by the end of 1987.

SPECIAL REPORT: BILLION $ CLUB

Peoples' innovations enhance value-added image

Continued from page 53

da. Local market sources said, however, that the stores "struggled for identity" and suffered from an unfocused pricing strategy.

Neither Peoples nor Imasco has indicated whether this means Peoples' mid-Atlantic reach will be permanently blunted at the Georgia line, or whether Peoples would refocus on the state in a different way.

A high-level executive at a major competitor of Peoples said those same types of problems plague the chain in many of its markets. "They are one of the highest-priced drug chains and particularly vulnerable to discounting. And while they're decentralized from their parent, they have a lot of headquarters staff. They're not streamlined," he said.

That vulnerability to discounting has hurt Peoples, particularly in the metro Washington, D.C., area. Dart Drug Stores, which is heavily outstored, is just about equal in market share leadership. Both have an approximate 25% share.

Price wars between Safeway and Giant Foods, which operate pharmacies, are training customers even more to buy on promotion.

All this faces Peoples with a lady or the tiger question. Should it discount more to hold onto market share, or maintain price and margin integrity and risk losing shoppers?

Surveys shoppers

One of Peoples' strategies is to survey shoppers once a month. "Some chains are so numbers- and ROI-oriented that they forgot customers are king. It's time to be innovative," a Peoples merchandising executive told *Drug Store News*.

To him, it's important to give consumers value-added perceptions. In cosmetics, for instance, video terminals and beauty consultant programs are being used to expand cosmetics from its current 4%-5% share of store sales to the 7% range.

Peoples got its biggest cosmetics splash when a show it hosted at the Washington Convention Center drew 50,000 people, the majority women, earlier this year. Peoples will run its Beauty Expo again in April in both Atlanta and Washington, D.C.

Other diverse ideas include adding 4 ft. of gourmet chocolates to lend upscale flavor, and doing unusual cross merchandising, such as private label diet aids next to hair coloring, to sway women shoppers concerned about their total appearance.

Pharmacy sales, helped by continued rollout of Rx computers, has risen to the 30% share of sales range.

Peoples has eliminated several laggard sundry categories to make room for faster growth areas such as candies and snacks, back-to-school and home office supplies, and household chemicals.

Constant promotions keep the high traffic-yielding photofinishing business a key part of Peoples' mix.

Peoples has so far opened nine Bud's deep discount stores ranging from 14,000 to 36,000 sq. ft. Eight have pharmacies, which account for less than 3% of each store's $4 million to $5 million annual volume.

Peoples moves people

When David Eisenberg was named executive vp and coo at Peoples earlier this year, it was the key move in a top management restructure meant to right the chain and set up a team into the 1990's.

He has been driving toward the following goals:

- Complete chainwide installation of pharmacy computers within two years, up from about 300 installations currently.
- Test scanning in 1986 and rolling it out as soon as practical.
- Upgrade all distribution centers to help alleviate excess inventories.

In other top-level appointments, Peoples took a rare step outside to bring in Richard Barker as senior vp-finance. He replaced Robert M. Arensmeyer, who retired.

Barker was executive vp and chief administrative officer at May Department Stores the past three years, and served at Wickes Cos. from 1975-83.

In a related move, Peoples promoted Jeffrey Fantle to senior vp-operations for all retail drug chains. He had been president and coo of the Lane Drug division since 1980.

He replaced Nicholas Simon, who retired.

In addition, Fred Edwards, the former president and coo at Reed Drug, was promoted to senior vp-marketing, Eisenberg's former post.

William Eagleson, vp-merchandising at two Peoples divisions, was named senior vp-distribution and merchandise control.

Leonard J. DeMino was named to the new post of corporate vp-pharmacy.

Joseph Pollard was named senior vp-corporate relations and advertising.

Other changes included the naming of John P. Manton to the newly created post of senior vp-corporate development and real estate, responsible for all specialty retailing, subsidiary and experimental operations.

David Forman was named senior vp-human resources. James Schwarz was named senior vp-legal.

The variety of promotions brings field people into corporate as a way to energize headquarters and keep top management in touch with needs of stores and consumers, a Peoples executive said.

"There are no cash registers at headquarters," he added.

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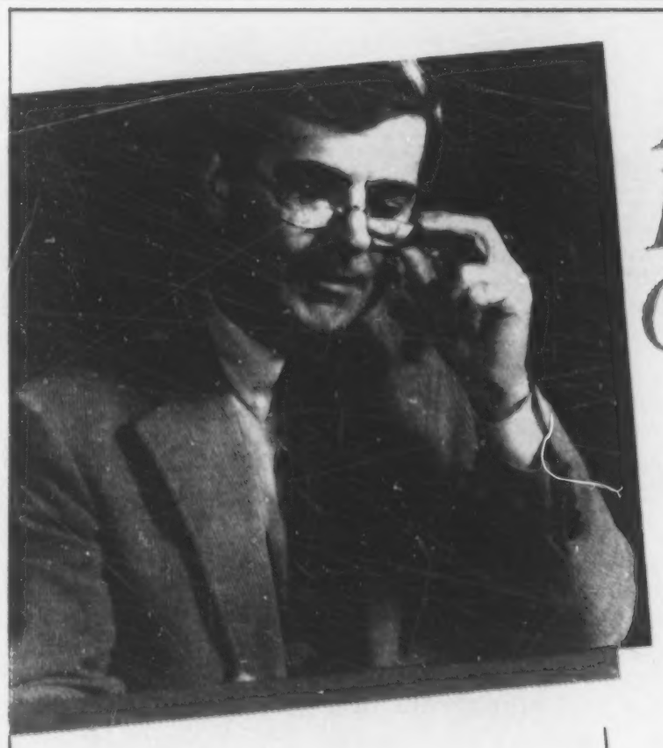

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INSIDE PHARMACY

Pharmacists join the HMO revolution

About 9% of the U.S. population is currently enrolled in HMOs, and the upward trend shows every sign of continuing.

In New York, HMOs are trying to entice people to join them with sweatbands, pencils and sweatsuits. Local TV stations, radio stations and newspapers are enjoying a burst of advertising revenues. And the city of New York had to publish a 32-page booklet to help city employees make sense of all the new plans.

New York recently decided to encourage the entry of for-profit HMOs into the state; in the last year alone, 10 new plans have been certified. In other parts of the country, HMOs are mushrooming at a similar rate, and when that happens, local pharmacists have to sit up and pay attention.

The lesson learned by many pharmacists in the hottest HMO markets in the country is that HMOs will not go away. Many of them offer prescription drug benefits either as part of the basic plan or as an option. For that reason, pharmacists may have no choice but to join the cost containment revolution.

Complete for blocks

While drug stores have always competed for individual customers, now they must compete for large blocks of customers who are aligning themselves with local HMOs. Medicare beneficiaries are also being funneled to HMOs, which is another good reason to get involved.

What happens when the HMOs move in? Those who have been there say you can expect downward pressure on pricing, and perhaps more increased traffic. That may lead to increased revenues from the sale of nondrug merchandise. The trend in HMOs is away from in-house pharmacies and toward contracting with existing pharmacies. In some cases, HMOs sign exclusive agreements with the large drug store chains, but in many cases they seem open to contracting with several providers.

One development that is distressing to pharmacists is the move by HMOs to ask for a bid on capitation rate. This puts a lot of the burden of risk on the providers—something HMO administrators believe is desirable. Commonly, however, HMOs and pharmacists will be negotiating an average wholesale price plus a percentage and perhaps a dispensing fee. Many HMOs require a co-payment from members in order to discourage overutilization; however, in very competitive areas, drug stores have been known to drop the co-payment requirement to attract customers.

There is also a great deal of talk about how HMOs will be exercising more and more control over providers, including pharmacists, through utilization review and generic substitutions, but so far that is the exception rather than the rule. HMOs are also showing some signs of being sweet on mail-service drugs to further reduce costs.

About 9% of the U.S. population is currently enrolled in HMOs, and the trend shows every sign of continuing. According to Interstudy in Excelsior, Minn., a clearinghouse of information on HMOs, by the end of 1985 there were 21,051,657 people enrolled in HMOs, a 26% increase over 1984.

Andrew Nighswander, manager of health care policy for the Arthur D. Little consulting firm, says that we can continue to expect 20%-25% increases in enrollment until 1990.

Even the government is diverting its Medicare and Medicaid beneficiaries toward HMOs. By the end of this year, 1.6 million beneficiaries, or 5.2% of the Medicare population, will be obtaining care from a prepaid health plan. About a million beneficiaries are part of a new Medicare program that does away with individual claims and pays an annual fee to the HMO. Under the TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) program, the government pays HMOs 95% of Medicare's local customary costs for care of a beneficiary. The government is guaranteed a 5% savings, and the new program also gives the beneficiaries more services than are ordinarily covered by Medicare. For instance, prescription drugs and eye care are not covered by Medicare, but these services are now available to those beneficiaries who become members of HMOs. Enrollment is currently voluntary. About 146 HMOs are approved for the program, and 39 more applications are pending.

Way to spread burden

"Supplemental insurance, called MediGap, was available to beneficiaries, but it was fairly expensive. Medicare was in serious trouble of running out of money," said Marla Kilbourne, prepaid health care specialist for the Health Care Financing Administration (HCFA). "So this was a way to place some of the burden on the health care industry to hold down costs and also to give the beneficiaries additional benefits at less cost."

The new Medicare program is expected to be a boon to those who provide ancillary services like prescription drugs, which have not in the past been covered by Medicare.

While the Medicare program is voluntary, some

Continued on page IP11

Action shifts from staff-model HMOs to IPAs

Continued from page IP9

states, like Arizona, California and Minnesota, are mandating that Medicaid beneficiaries enroll in HMOs in certain areas. About 900,000 Medicaid beneficiaries are currently enrolled nationwide, according to Ed Neuschler, senior fellow in health policy studies for the National Governors Association. He estimates that the total Medicaid population is 16 million-18 million. Medicaid programs have agreements with HMOs or some other cost containment program in 30 states.

Persuading Medicaid beneficiaries to go to HMOs is not easy, Neuschler points out, because there are not the same financial incentives as there are for the rest of the population.

Staff models and IPAs

Independent pharmacists and chain drug stores have always considered in-house pharmacies to be the main threat posed by HMOs. However, the staff-model HMOs, which hire their own staff, build their own centers and are most likely to have in-house pharmacies, have fallen out of favor. The IPA (Independent Practice Association) model accounts for most of the new HMOs because of the lack of capital expenditures required and because of a recognition by administrators that many consumers prefer to go to their own doctor or another doctor of their choice.

HMO enrollment by state
Top 10

1 Calif.	6,191,420
2 N.Y.	1,510,945
3 Mich.	1,056,781
4 Minn.	985,491
5 Ill.	962,055
6 Ohio	902,719
7 Wis.	900,657
8 Mass.	878,542
9 Fla.	768,571
10 Pa.	668,756

*Interstudy, Excelsior, Minn. Dec. 1985

"The staff-model pharmacy as a direct competitor is not where the major action is," says Nighswander of Arthur D. Little. "That has fairly well peaked. The biggest action is in contracts with IPAs that offer pharmacy services."

Many of the drug chains are now scrambling for contracts and in many cases have succeeded in winning agreements as the exclusive or nonexclusive providers of pharmacy services. Walgreen would not discuss its HMO business with *Drug Store News*, but Stanley Kohn of SupeRx said that "SupeRx has aggressively gone after HMO agreements in those areas where we have stores."

Chains must adapt

"HMOs are increasingly important to pharmacy, and it's another type of delivery system chain stores will have to adapt to."

SupeRx has negotiated exclusive provider agreements with Humana Care Plus, Maxicare and Health America in some areas.

Kohn said SupeRx prefers to negotiate on fee and price rather than on a capitation rate. Kohn said the charges to HMOs for pharmacy services are comparable to other third-party programs. However, because of increased traffic the stores "do more up-front business."

However, Judy Whalen of Met Discount Drug in Florida characterizes charges to their HMO customers as "way below third-party programs."

"We're not making any money from them, and I don't see them as an asset to the industry," she said.

"We're not happy with it, but we have to live with it."

PMA report

"Traditionally, HMOs have achieved savings by reducing inpatient, and, to some extent, specialty services," according to a report released by the Pharmaceutical Manufacturers Association early this year. "However, as the environment becomes more competitive, they are focusing on lower priced, high volume items such as ancillary services and pharmacy.

"HMOs are becoming more active in controlling their pharmacy costs in response to competitive price pressures," the report continued. "For example, most plans require pa-

Continued on page IP13

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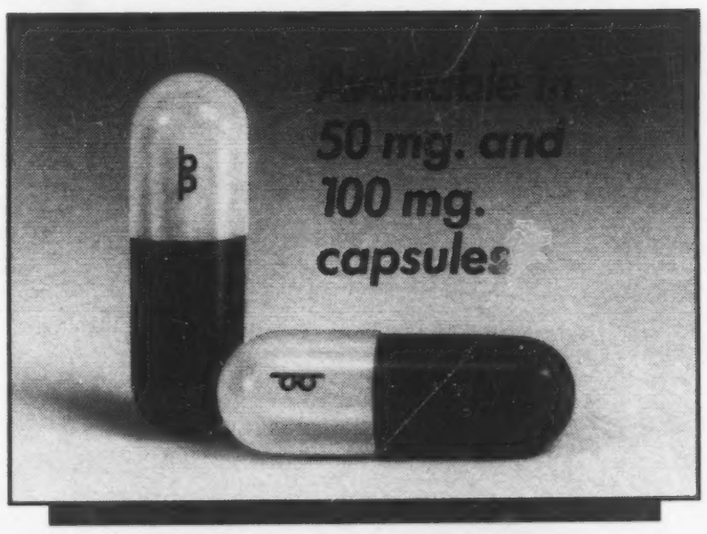

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HMOs responding to competitive pressures

Continued from page IP11

tient cost sharing, usually in the form of flat co-payments per prescription. Most plans are becoming more aggressive about affecting physicians' prescribing behavior through education, or through financial incentives and enforcement of drug formularies, generic substitution, and therapeutic substitution. These efforts are often assisted by drug utilization review, which is made possible by the advent of more sophisticated automated data systems and the employment of professional pharmacy managers."

The news is not all bad, though, according to the PMA report, because HMOs clearly favor therapeutic alternatives to replace surgery and stays in intensive care units. But the PMA report warns manufacturers that "retail pharmacies contracting with HMOs will also attempt to negotiate lower prices with their own suppliers in order to compete for HMO buyers."

Pharmacists', chains' fears

Probably one of the greatest fears of independent pharmacists and drug store chains is that the largest HMOs will enter into contracts with the largest national or regional chains, leaving everyone else out in the cold. Some HMO adminstrators have publicly expressed interest in signing such large scale agreements with providers of health care services. In fact, HMOs themselves are afraid that unless they are national in scope they will lose out in the competition. Blue Cross, Blue Shield is building a national network of HMOs and has sponsored 90 plans so far.

On the provider side, the National Association of Retail Druggists (NARD) is organizing pharmacists into a national network called RxNet. Max Richburg, executive officer of NARD, says pharmacy services administrative organizations (PSAO) are lacking in the following: Maine, Vermont, Delaware, Mississippi, Hawaii, Alaska, Idaho, Montana, Wyoming, North Dakota, South Dakota, Washington, D.C., and possibly Nevada. Richburg said NARD is trying to stimulate the formation of PSAOs in those areas so that the network will be complete. He added that he hopes to begin marketing RxNet for national and regional health care programs in 1987.

Nighswander is one who doubts that HMOs will lock themselves into national contracts.

A local enterprise

"I have a personal bias about that," said Nighswander. "Anything that has a major service component depends on a good, strong local relationship with providers. Health care is stll a local enterprise."

Nighswander explained that timeliness and assistance are easier to guarantee on the local level and believes that HMOs will negotiate with national chains just to establish a ceiling price and then will "go out locally and try to beat the price."

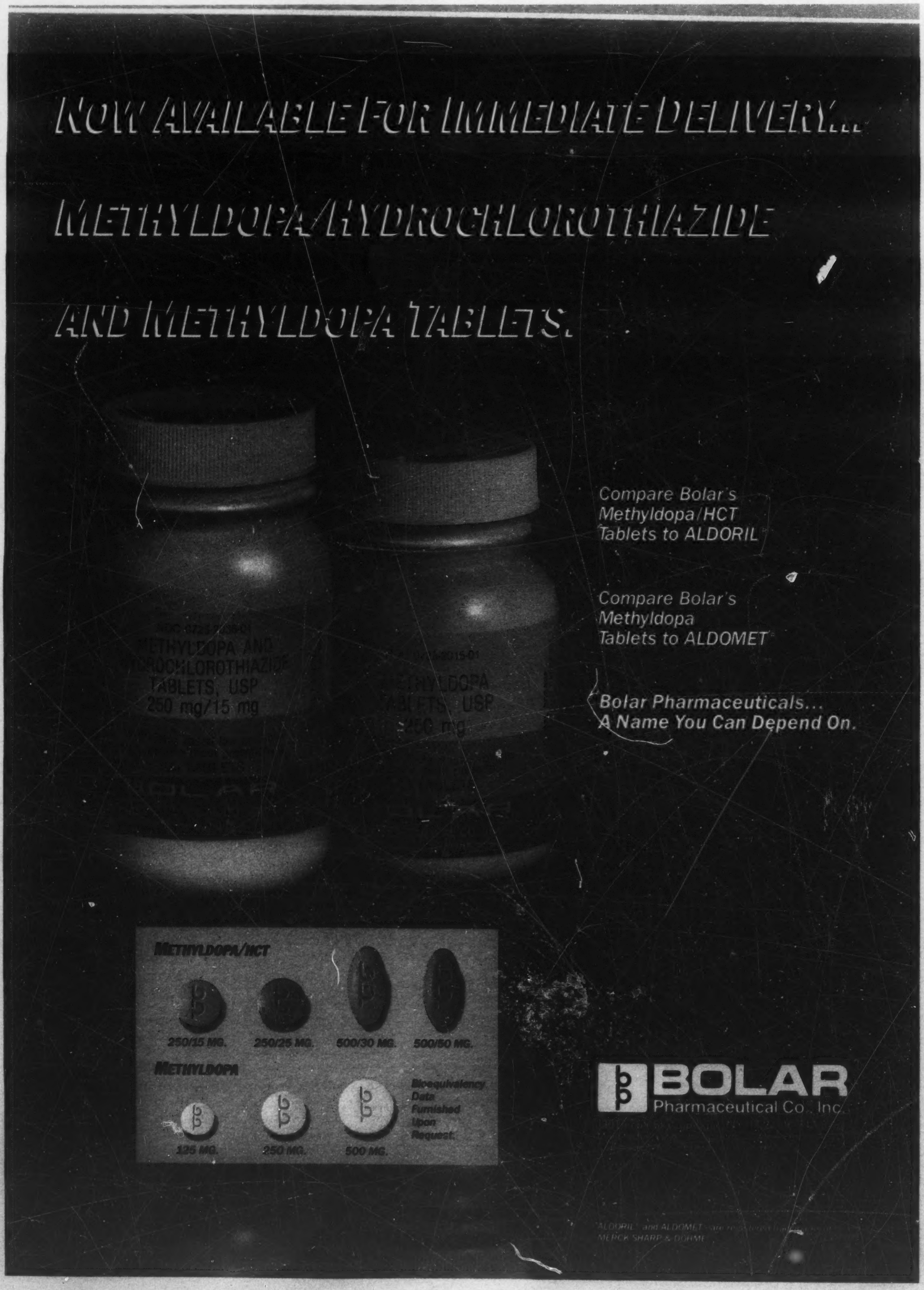
The PMA's report also noted that convenience and ability to attract additional HMO members may "dictate the use of multiple contracted outlets," and it may further be to the HMOs' advantage to keep several contractors in the game so that they will be more willing to negotiate on price.

Richburg of NARD believes that so far neither the independent nor the chain store pharmacist has benefited from the cost containment drive of the 1980's. He believes that the only clear winner at this stage are mail-service programs.

Breakdown of HMO by type

Independent practice association	245
Staff model	64
Group practice	81
Network (more than one group practice)	90
	480

*Interstudy, Excelsior, Minn. Dec. 1985



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Survey finds retailers paring videotape brands—page 15

DRUG STORE NEWS

Vol. 9/No. 1 **Serving chains, wholesalers and high-volume independents for 57 years.** Published by Lebhar-Friedman Inc. January 5, 1987

Rite Aid bursts into Fla. with 187 units

Also acquires 200,000-sq.-ft. SupeRx warehouse

By Dave Vaczek

SHIREMANSTOWN, Pa. — Rite Aid has entered Florida with a flourish by buying 187 SupeRx and Gray Drug stores from Kroger and Sherwin-Williams.

With the acquisition of 106 SupeRx stores and 81 Gray Drug units, Rite Aid suddenly commands an established position in the high-growth markets of Broward, Palm Beach and Dade counties in the Southeast, in the Gulf Coast Tampa-St. Petersburg market and in Orlando.

In expanding its arena for planned southeastern growth—which had been confined to the Carolinas, Tennessee and Georgia—Rite Aid becomes the second largest drug chain in terms of stores, with 1,680 units, surpassing Jack Eckerd Corp., with 1,618 stores. The buy will boost annual sales by $250 million, to over $1.7 billion.

Scored coup

Florida retail sources said that Rite Aid scored a coup in paying a total of $110 million. The deal includes not only the Florida units, but also 22 Drug

See **Rite Aid,** *page 33*

Bellini group gets 358 units

CLEVELAND — With the sale of 103 Gray Drug Fair stores to Rite Aid, Sherwin-Williams simultaneously announced it is selling the remainder of its Gray Drug chain to president Carl Bellini in a leveraged buyout.

A Bellini-led management group will buy 358 stores, beating out a bid by former Gray Drug president Al Towle. Sources said Bellini's closer ties to management tipped the sale in his favor.

Revco president William Edwards, left, chairman Sidney Dworkin.

Shareholders O.K. Revco $1.25B LBO

TWINSBURG, Ohio — A management-led investor group took control of Revco D.S., after shareholders owning 76% of shares approved a $1.25 billion leveraged buyout.

Owners of 19.6 million shares of 25.8 million represented at the chain's Dec. 16 annual meeting approved a merger of Revco with Anac Merger Corp., a subsidiary of Anac Holding Corp., which was formed to take the 2,069-store chain private.

Thirty-five Revco employees; Transcontinental Services Group, a Netherlands Co.; Salomon Brothers, the investment bank; Golenberg Co. of Cleveland; and other investors paid $38.50 a share. Revco shares closed at $37.50 the day of the deal.

Beats deadline

The buyout, first announced in March, beat a year-end deadline to preserve tax benefits phased out in 1987. The Revco Board of Directors

See ***Revco,*** *page 33*

Addresses operational, image problems

Dart sets recovery course

By Al Heller

LANDOVER, Md. — The recasting of Dart Drug is in full swing—and none too soon to raise the 80-store chain out of the red, where it's been since its massive debt restructure last spring.

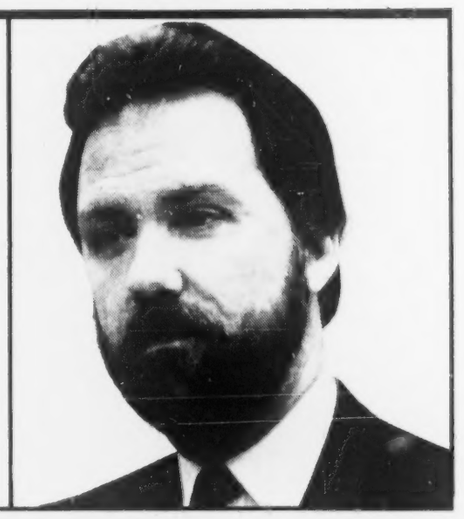
An intensive media blitz is the most visible part of Dart's attempted remake. From mid-November to the end of January, Dart is airing 30-second institutional spots 20 times a day, seven days a week over five television stations covering the D.C. market. Dart also ran full-page image ads in the *Washington Post* that discuss customer policy changes, to help kick off the campaign.

At store level, customers are more likely now to bump into headquarters executives wearing name badges who want to talk with them, and should also experience cleaner stores, faster checkouts, easier walkthroughs and better out-of-stock and return policies.

21 task forces

The road will be a long one for Dart, given its onerous reputation from the past that still haunts them. But chairman and ceo Stephen J. Hansbrough has applied shock therapy to the chain from top to bottom, placing staffers from all levels on 21 separate task forces to find solutions for operational and image problems.

'We're meeting our responsibilities as prudent businessmen. We're retooling and repositioning our company to be successful.'
—Stephen J. Hansbrough
chairman and ceo
Dart Drug



The ads are at once a public confession that Dart wronged customers in the past and an attempt to expand its shopper base. Hansbrough told *Drug Store News* that months of consumer and employee sur-

See ***Dart,*** *page 33*

Hook-SupeRx clinches deal to buy Kroger units

CINCINNATI — Hook-SupeRx used bank loans, high risk bonds and investor equity to buy 662 stores from Kroger for $415 million.

The buyout group—led by former Seagrams executive Philip Beekman—completed the deal on Dec. 9 and created a new Midwest drug store company.

About 44 members of chain management are equity investors along with Kroger and Goldman Sachs, the investment banking firm that arranged the leveraged buyout. Equity input accounts for $30 million, with Kroger and GS each owning a 37% share, according to sources close to the sale.

Bank loans account for $260 million, with an additional $30 million set aside for a credit line. The remainder of the cost—$125 million—will be raised by placement of subordinated notes paying 13% interest that will be sold by GS.

"It was very, very oversubscribed. The banks came in for much larger amounts than we wanted to give them. And every bank that saw the deal wanted to come in," said Edward Crook, vp at Chase Manhattan Bank, the lead bank. Chase loaned $75 million.

Upbeat view

The banks had an upbeat view of the management team, the drug stores' potential and the debt structuring. They were also heartened because of the large investments by Kroger and Goldman

See ***Hook-SupeRx,*** *page 33*

Melville names chairman, ceo

HARRISON, N.Y. — Stanley P. Goldstein, who oversaw the growth of CVS from a single Lowell, Mass., discount H&BA store in 1963 to a powerhouse in the chain drug industry, has been named chairman and ceo of the Melville Corp., CVS's parent. Goldstein, 52, succeeds Francis C. Rooney Jr., 65, who is retiring.

Goldstein, who had been president of CVS before joining the parent company as executive vp and director in 1984, was named president and coo of Melville in 1985.

Melville is one of the nation's leading specialty retailers with more than $5 billion in sales from its drug store, apparel, footwear, toy and home furnishings operations.

Stanley P. Goldstein

NEWS IN BRIEF

Alco does Christmas shopping

VALLEY FORGE, Pa. — Alco Health Services, which has grown rapidly through acquisition this year, has agreed in principle to buy two wholesalers in all-cash deals that were expected to be concluded by Jan. 1.

Archer Drug ($35 million annual sales) of Little Rock, Ark., and Michiana Merchandising Systems ($20 million annual sales) of Mishawaka, Ind., would become the sixth and seventh takeovers for Alco since it went public in August 1985. Both distribute pharmaceuticals, health & beauty aids and sundries: Michiana also distributes general merchandise.

The Archer deal is subject to final approval by both boards of distributors.

Perry bags 2 Owls in Mich.

PONTIAC, Mich. — Perry Drug Stores has acquired two former Owl drug stores in Drayton Plains and Keego Harbor, Mich. The locations are 13,500 sq. ft. and 7,500 sq. ft., respectively, and will operate as Perry stores, the chain said.

Fred Meyer sells NW sites to Met Life

PORTLAND, Ore.—Fred Meyer Real Estate Properties, which leases stores to Fred Meyer, has sold 35 store sites and one distribution center site to Metropolitan Life Insurance for more than $400 million.

Nearly five million square feet of retail space went in the deal, including stores in Oregon, Washington, Alaska, Idaho and Montana, and a 1.5 million sq. ft. DC in Clackamas, Ore.

Met Life now owns both land and buildings. The properties will remain leased to Fred Meyer, which will have the option to buy after the initial 20-year term, Met Life announced.

Paz leaves Longs to become importer

WALNUT CREEK, Calif. — Phil Paz has resigned his post as vp-merchandising at Longs Drug Stores in order to launch his own importing business. The veteran merchandising executive said that his company plans to import primarily general merchandise from the Orient and sell to wholesalers, distributors and retailers.

"It was a good opportunity," Paz told *Drug Store News*. "The timing was right and I was ready to make a change."

At presstime, Longs had not announced any replacement.

OTC sale of glasses OK'd in Mass.

Massachusetts became the latest state to allow over-the-counter sales of reading glasses after a three-year lobbying effort by chain drug representatives and the reading glass industry.

The legislature said the glasses can be sold starting Jan. 15, providing that displays are labeled with a sign that tells customers reading glasses aren't a substitute for prescription lenses and that only a professional can determine eye care needs.

Magnavision (formerly Alsite Corp.), the Massachusetts Chain Drug Store Council and top Rix Dunnington officers led the lobbying offensive against the state Society of Optometrists, who argued such sales would prevent needed eye exams.

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Vol. 9, No. 1 January 5, 1987

Perry draws fiscal plans to lift sagging bottom line

PONTIAC, Mich. — Perry will clamp expenses that drained its 1986 earnings.

The chain will replace employee liability and health insurance plans, has restructured some debt and has set cost control policies, after year-end earnings dove 39%.

Earnings for fiscal 1986 ended Oct. 31 dropped to $5.9 million, or 59¢ a share, from 1985's $9.6 million, or 97¢ a share. Fourth-quarter profits came in at 87% less than the comparable 1985 quarter. Final quarter earnings were $315,000, or 3¢ a share, against $2.4 million, or 24¢ a share, last year, the chain said.

But sales continued a chart-busting course. They hit $648 million, up 24% from 1985's $521.6 million, following fourth-quarter sales of $173 million, 19% higher than 1985's $145 million.

Drug stores performed

Auto parts same-store sales and earnings faltered, but a solid drug store performance supported corporatewide same-store sales growth of 7%, compared with the 4% growth Perry posted from 1984 to 1985.

"Our business fundamentals remain strong," said Jack Robinson, Perry's chairman and ceo. "Sales set records, seasoned stores performed well, gross profit margins were stable, and market share increased," said Robinson.

Perry Drug corporate sales, earnings and store totals in the last three years
(Sales and earnings in $ millions)

Sales	1984	1985	1986*
	$371.9	$521.6	$648
Earnings	**1984**	**1985**	**1986**
	$7.6	$9.6	$5.9
Stores	**1984**	**1985**	**1986**
Drug	146	191	210
Auto parts	110	176	230
Home health care	2	5	5

Fiscal year ended Oct. 31.
Source: Perry Drug

A Perry spokesman said that some of the same factors that triggered the earnings slide in the third quarter continue to disrupt profits. Earnings are being hit by "dramatic" cost increases in employee health insurance and by rising debt service costs. Interest expenses for the year were about $10 million, compared with 1985's $6.2 million. The chain has borrowed widely in the last two years to support an aggressive acquisitions program in drug and auto parts stores.

Fourth-quarter earnings were also affected by the loss of tax credits for 1986 capital investments. It equals a loss of 8¢ a share.

Insurance program costs

Perry suffered from heavy costs of a "cafeteria-style" health insurance plan that allows employees to tailor their own programs. The result was some expensive programs. Besides reviewing the insurance programs, the chain has set cost control measures, including a hiring freeze and restrictions on travel and entertainment.

Interest expenses should subside in 1987 because of some debt restructuring, according to Berl Falbaum, vp-corporate communications.

Perry's plan to relocate and consolidate corporate offices in downtown Pontiac also promises savings, as offices are now scattered among five locations, creating higher administrative costs.

Although sales for the auto parts division are up 14% for the year to $145 million, compared with $125 million in 1985, sales were boosted by the opening of 57 new stores.

Fox ends 27-year tie with firm

PONTIAC, Mich. — Donald Fox, Perry Drug's president and coo, said he is leaving Perry to pursue personal and business interests.

"I felt after 27 years that it was time to do something else and perhaps in a different place," said Fox, 53. "Right now, we're still keeping all our options open."

Fox said he is considering the pursuit of business opportunities in Chicago, where he and his wife, Nancy, would like to move to be closer to one of their three children. The resignation is effective Jan. 12.

The departure breaks up a partnership with Perry chairman and ceo Jack Robinson that began shortly after Robinson founded the chain in 1959. Fox joined as a part-time pharmacist, when Perry had two stores. The chain has since grown to 210 stores and diversified into auto parts and home health care.

Earnings dropped

While sales and earnings have climbed steadily year to year, Perry year-end income slid for the first time in the 1986 fiscal year ended Oct. 31. The company pointed to higher costs from employee health care benefits, costs stemming from its strong 1985 acquisition program and the loss of investment tax credits under the new tax law. Earnings are down 39% from 1985.

Fox had been mulling a move in recent years, according to a Perry executive. "This is nothing new. He's been talking about this for three to five years," said one source.

Donald Fox
Perry Drug president and coo

Fox will continue to serve on the Board of Directors, and Robinson will take on Fox's duties. A search committee has been formed.

'Fruitful relationship'

"I fully understand Don's position. We have had a long and fruitful relationship, and I will miss his business counsel and advice," said Robinson.

"He greatly contributed to Perry's growth and its position as a leader in the industry . . . ," said Robinson.

Fox became a partner in Perry's second store in 1960. He was elected an executive vp when Perry went public in 1973 and was named to his current post in 1980.

Coutu opens 100th store

ST. HENRI, Quebec — The Jean Coutu Group opened its 100th store Dec. 17 in this blue-collar suburb of Montreal with a fresh approach to prescription sales.

The store's physical format is unusual because the wholly owned property is slanted: It's half basement, half upper floor with an escalator, chairman Jean Coutu told *Drug Store News*.

Its pharmacy operation is the true innovation here. There is space for a dental and medical clinic next to the prescription department that will be occupied soon by outside medical professionals who will pay straight rental. These private professional offices will be open 15 hours a day.

"They add traffic to the store, and we can direct a lot of customers' medical questions their way. It's also a natural environment for doctors and dentists, who add to our prescription sales," Coutu said. "It's good for both sides."

He explained that the Jean Coutu Group has similar medical and dental setups in two other stores, in Mount Royale and Verdun, another suburb of Montreal. Prescriptions filled in those stores exceed by 20%-25% the chainwide average of 270 scripts per day per store, he said.

SPECIAL REPORT TRENDS

'87 Industry Forecast: Partial clearing for sales, profits

Drug store executives are predicting an improved sales and profit performance for 1987, according to *Drug Store News*' third annual Industry Forecast Survey.

The survey, which was carried out in November, is in contrast to a similar study done last year, which indicated strong retailer concerns about the economy, consumer confidence and sharpened competition.

While concerns were still evident, the executives interviewed by telephone for the 1987 forecast study were more upbeat about their ability to increase sales through greater promotion and to improve their operating profit margins by cutting operating costs and emphasizing higher margin categories.

Invest in stores

In addition, the executives anticipate that they will be able to use part of the net gain from the new tax code to add more stores, either by building from the ground up or through acquisition.

That, in turn, will help to fuel an overall sales gain, which executives predicted would average 10.3% for the year.

The executives also intend to balance their investment in new store growth with remodeling programs and with the installation of new or additional technology such as computers and POS scanning registers.

Moreover, an overwhelming majority of the executives (87%) felt that their same-store sales would also increase, a strong indication of their confidence during a period of relatively small inflationary gains. Only 13% of the respondents predicted no growth in same-store sales, and no one foresaw a decrease.

Top execs polled

These were among the findings from a survey of top executives (chairmen, presidents and chief financial officers) of 30 drug chains representing more than 4,000 stores and almost $7 billion in sales.

The telephone survey was carried out by Lebhar-Friedman Research during the week of Nov. 10-18, 1986.

In addition to expected performance gains, the executives also focused on the 1987 competitive arena. The sharpest rivalry is expected to come from food and drug combo operators, followed closely by deep discounters and conventional supermarkets.

Less important as retail rivals will be the discount department stores, according to the respondents, who also felt that there would be almost no competitive heat from one of the country's fastest growing retail segments, the membership warehouse clubs.

Implicit in their responses is a confidence in the drug stores' ability to weather competitive storms through their convenient locations and professional health care image.

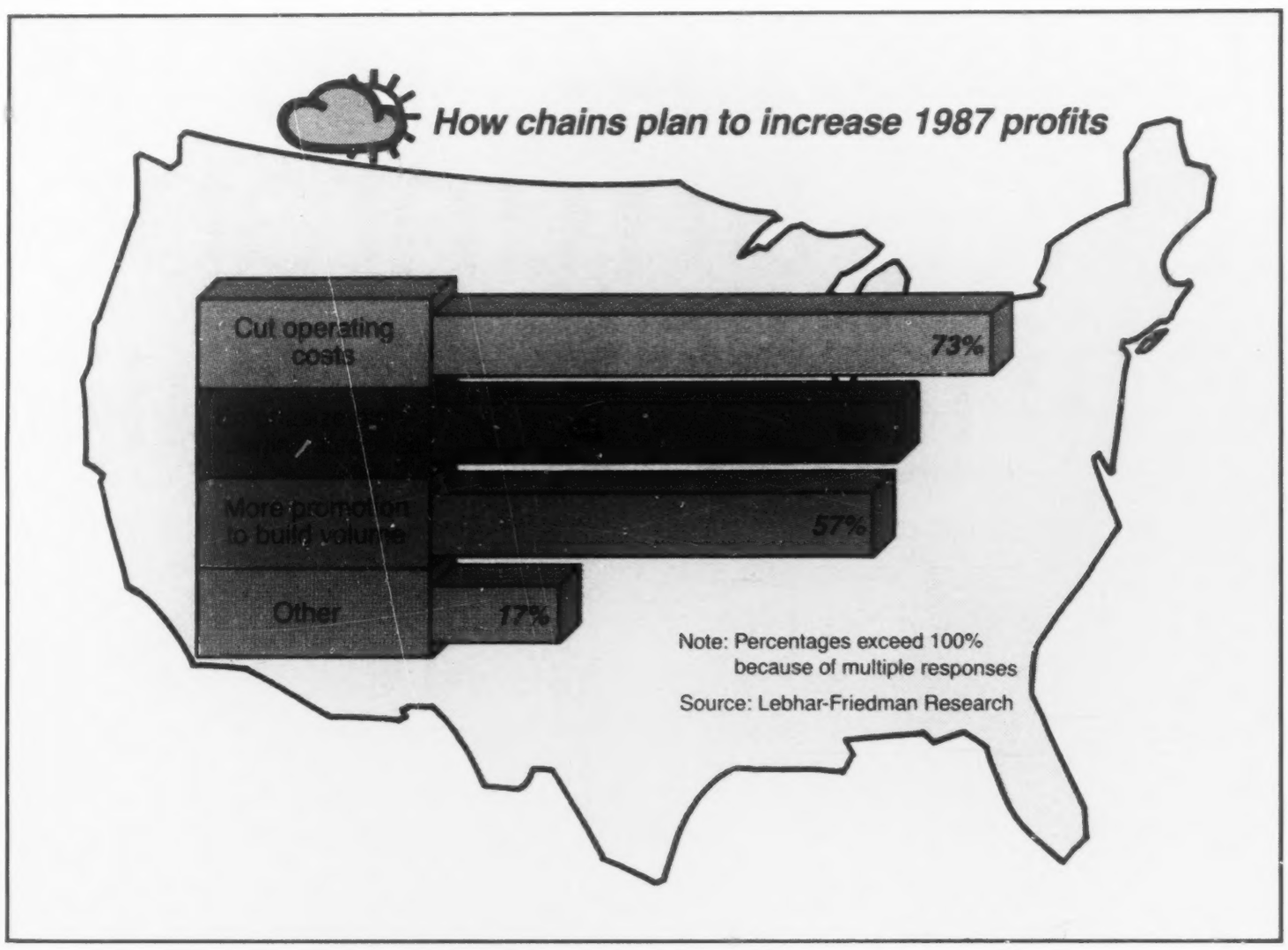
Forecast breakdown

The following are some of the individual highlights of the forecast study.

- In order to increase 1987 profits, almost three-quarters of the respondents (73%) expect to shave operating costs. Two out of three plan to emphasize more high-margin categories, while more than half (57%) expect to increase volume and traffic (and thus generate more profit dollars) through increased promotional activity.
- The chains plan a broad array of uses for the gains they anticipate from the lower 1987 corporate tax rate. More than a third of the respondents (37%) say they will use the extra revenues for store acquisition purposes, while 33% say they will build new stores. One-third of the chains expect to use the money for remodeling stores, and a third will add new technological equipment.

Not mentioned was the possibility of using the money to cut prices in order to meet competitive threats.

- The average same-store sales gain predicted by survey respondents was a strong 7.4%.
- Forty per cent of the respondents expect food and drug combination stores to be their major competition in 1987. Almost one-quarter (23%) mentioned deep discounters and another 23% cited supermarkets. Only 13% mentioned discount department stores like K mart and Wal-Mart as their major competition.
- In assessing the impact of the various competitive segments on chain drug sales, roughly 3 out of 10 respondents predicted a "substantial impact" from both deep discounters and food/drug combos. Thirty-seven per cent anticipated a moderate competitive impact from the two retail segments.
- Forty-three per cent of the respondents expect consumers to spend more money on drug store merchandise, while 57% expect consumers to spend about the same.



How drug chains will spend 1987 tax savings

Acquire stores	37%
Build new stores	33
Remodel stores	33
Install new technological equipment	33
Add to distribution center space	17
Nothing	10

Note: Percentages exceed 100% because of multiple responses

Source: Lebhar-Friedman Research

Chains predict toughest competitors in 1987

Type of outlet	%*
Food/drug combination stores	40%
Deep discount stores	23
Supermarkets	23
Discount department stores	13

*Percentage of respondents selecting various outlets as major rivals

Source: Lebhar-Friedman Research

Expected impact of various competitive types

Type of outlet	Heavy impact	Moderate impact	Little impact	No impact
Deep discounters	30%	37%	27%	7%
Food/drug combos	27	37	30	7
Supermarkets	20	30	37	13
Discount stores	13	20	30	37
Warehouse clubs	3	7	37	53

Percentages indicate portion of respondents selecting impact levels of various store types

Source: Lebhar-Friedman Research

Legislative climate shifting on Rx issues

With controversial drug diversion legislation on the move in Congress and bedrock changes in Medicaid Rx reimbursement under study by Federal regulators, 1987 is shaping up as a watershed year in Washington for the drug store industry.

But for many chain and independent pharmacies, the top concern this year may well be the flurry of labor and payroll-related initiatives expected to surface on Capitol Hill during the coming months.

With the Democrats now in control of both houses of Congress, officials at the National Association of Chain Drug Stores are bracing for a major new drive to boost the national minimum wage rate.

Possible 'ripple effect'

According to NACDS, organized labor is already mapping plans to boost the current $3.35 hourly pay floor to $4 or more—a hike that could cause an inflationary "ripple effect" on the salary structures in retailing and other labor-intensive industries.

There's also concern that the new, more liberal 100th Congress will give serious consideration to separate proposals mandating employer-paid fringe benefits for workers.

Among the schemes certain to emerge this year: legislation requiring many employers to pay health insurance premiums for ex-employees (or their dependents), and a controversial "paternal leave" bill obliging firms to rehire workers who take time off to care for newborn (or newly adopted) children.

Polygraph issue to recur

Legislation outlawing employee polygraph testing—a plan opposed by NACDS and the National Association of Retail Druggists but supported by the American Pharmaceutical Association—is also a sure bet to resurface in '87. A key question for the drug store industry is whether Congress will agree to an exemption allowing lie detector testing of workers with access to controlled substances.

Continued on page 11

TRENDS

Diversion, liability to resurface in Congress

Continued from page 10

The right of employees to require workers to submit to drug testing also figures to come under debate on Capitol Hill this year, along with a number of other employee "rights" issues.

Among rights questions likely to stir the most heated controversy: a revival of the dialogue over "comparable worth" (i.e., equal pay for different but "comparable" jobs) and the question of whether individuals with AIDS, herpes and other communicable diseases are protected from job discrimination by Federal rules banning employment bias against the handicapped.

Overtime pay question

On the regulatory front, look for the Labor Department to unveil proposals to change current ground rules governing overtime pay requirements for low-salaried managerial workers.

Current department rules generally require premium (i.e., time-and-a-half) wages for all hours worked in excess of 40 per week. But "executives" such as store managers, assistant managers and other supervisory personnel are exempt from this requirement if they perform certain managerial duties *and* earn a base weekly salary of at least $155.

The department's proposal—scheduled to be released early this year—is expected to raise the minimum weekly salary threshold for exempt managers, but relax the "duties test" in order to make it easier to qualify employees for the overtime pay exemption.

Legislation outlawing employee polygraph testing . . . is a sure bet to resurface in '87.

The courts are expected to handle a rash of employment-related disputes during 1987, many of them focusing on the touchy issue of sexual harassment.

Sexual harassment

The courts are also expected to handle a rash of employment-related disputes during 1987, many of them focusing on the touchy issue of sexual harassment in the workplace. Late last year, the Supreme Court ruled that employers are legally obligated to provide workers with a nonsexually threatening work environment—a decision certain to touch off much litigation by employees claiming to have been victimized.

Not all of the action in Washington this year will focus on labor issues, of course. Liability reform legislation will again emerge as a priority agenda item on Capitol Hill, and drug store industry-opposed "beer bill" legislation eliminating price competition among malt beverage distributors will come under consideration early in the new session.

Rep. John Dingell (D-Mich.), who chaired a marathon series of House hearings into prescription drug diversion, will be reintroducing legislation in 1987 to deal with these activities.

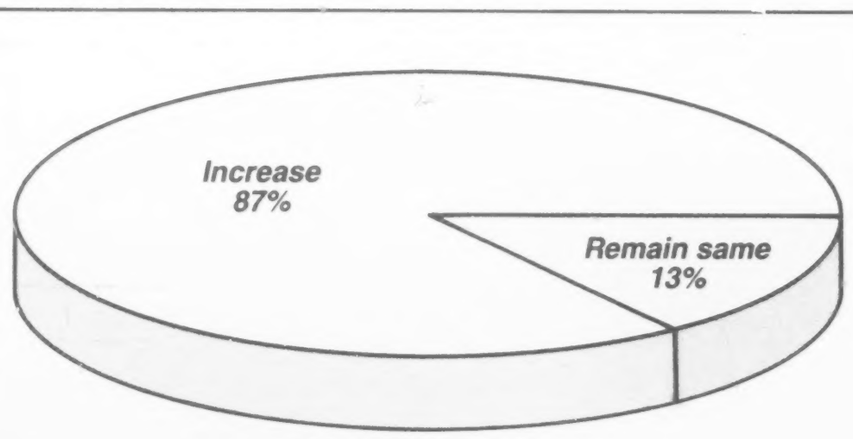
Last year, Dingell advanced an omnibus antidiversion bill endorsed by most national pharmacy groups, but that legislation died at the close of the 99th Congress because of opposition from pharmaceutical manufacturers. The bill's fate in 1987 may hinge on whether Dingell and the Pharmaceutical Manufacturers Association can strike a compromise on the sensitive issue of drug sampling.

Meanwhile, in the regulatory arena:

- The Food and Drug Administration will be implementing the final stages of its Action Plan to streamline drug approvals, moving to resolve bioequivalency issues associated with generic drug approvals and developing new tamper-resistant packaging requirements for OTC products.
- The Customs Service, the International Trade Commission and the Federal Trade Commission will continue their three-way tug-of-war with Congress and the courts over the legality of gray market imports.
- Federal antitrusters may launch a drive to repeal the Robinson-Patman antiprice discrimination law and will reconsider current "Fred Meyer" co-op advertising guidelines requiring manufacturers to make such promotional assistance available to all retailers on a proportionately equal basis.
- The Health Care Financing Administration will finish sifting through comments on its proposals to streamline Medicaid drug reimbursement and announce whether it will seek to revise the current MAC/EAC system or replace it entirely with radical new approaches such as CIP or PhIP.

Rep. John Dingell, who chaired a marathon series of House hearings into prescription drug diversion, will be reintroducing legislation in 1987 to deal with these activities.

How chains project 1987 same-store sales



Source: Lebhar-Friedman Research

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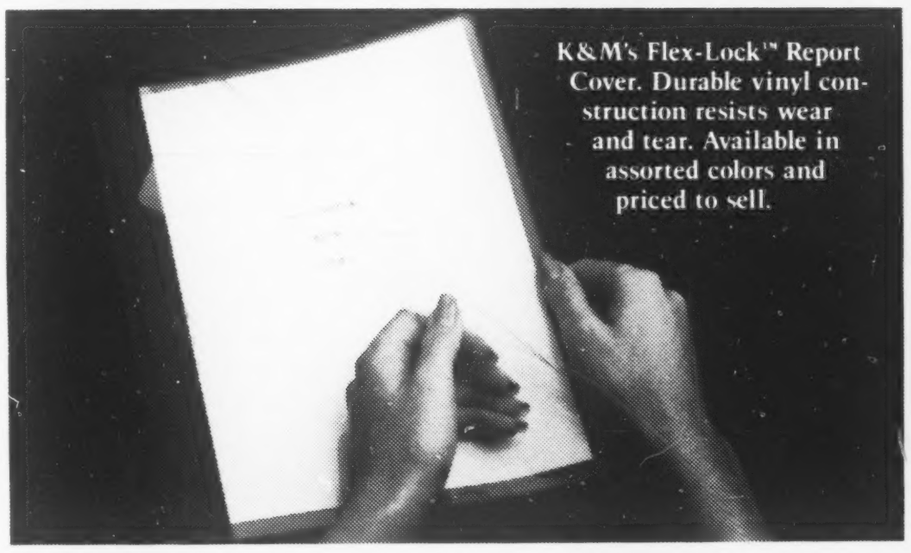
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MERCHANDISING TRENDS

Two ways to sell tapes

Eckerd

Jack Eckerd started selling prerecorded videotapes in August in a program built around public domain films and licensed children's cartoon programs at under $10.

The chain is doing a brisk business by promoting tape assortments in monthly tabloids and by varying the mix regularly, according to Jack DiSalvo, Eckerd senior buyer.

"You have to alternate your titles to be successful. I think of treating my department as a magazine rack," said DiSalvo.

Eckerd recently promoted movie tapes such as "Gung Ho," "Metropolis," "The Man With the Golden Arm," and "The Little Princess " and a 20-minute family workout program at $6.88, regularly $10.99.

Eckerd sells peg-displayed tapes in all 1,500 stores. It rents tapes from 150 units.

DiSalvo launched the program with low-end items he feels the customer is most likely to accept. Fast-turning licensed tapes include the "Good Times Kids Klassics," which has the rights to such licenses as Hanna-Barbera and the Muppets.

Eckerd will evolve to higher price points, such as the Disney line at $15 to $29, once the low-end proves itself, DiSalvo says.

The stores carry 72 titles, representing about $800 in inventory. DiSalvo stocks strictly the VHS format, since Beta and 8mm are in less demand.

Eckerd avoids the high-priced first release movie tapes because "there's not a viable mass market for them yet," DiSalvo said. Yet he's optimistic about the potential for tape sales, based on his success so far and on the continued projected boom in VCR ownership.

Genovese

Genovese Drugs is planning to sell an assortment of prerecorded videocassettes in a majority of stores in 1987, after two years of selling tapes only during the Christmas season.

The Long Island, N.Y., chain will carry tapes priced in the $19 to $29 range, with an emphasis on children's videos, which it bought for recent Christmas seasons from such vendors as TransAtlantic Video and Karl Lorimar, said buyer Lenny Genovese.

The chain promoted children's tapes for Christmas '85 that sold well. It offered tapes in a range of prices this past holiday season, including a children's learning program at $4.99 and the Jane Fonda workout tape on promotion at $29.95. Thanks to hometown fever, the most successful tapes have been on the World Series champion New York Mets—for example, "Lets Go Mets," featuring highlights of 1986-season Mets games at $19.95.

Genovese included tapes in its sales catalog for the Christmas just ended.

"The business is growing, and we want to emphasize the learning tapes for children," said Genovese, referring to the largely suburban family markets it serves.

The chain will continue to rent prerecorded tapes from two stores where available space has allowed them to set up departments. It carries 1,200 titles in each store.

Drug stores narrow choice of blank videotape brands

Trade survey cites more promotions, 8mm potential

The billion-dollar blank videocassette market, while expected to grow rapidly to $1.3 billion (factory sales) in 1987, is becoming increasingly competitive among vendors, who see retailers carrying fewer brands than in previous years.

A recent survey of retailers in 13 major markets, conducted in person this fall by Contemporary Market Research for Fuji, a tape manufacturer, indicated that among all classes of trade, the average number of brands sold declined from 4.74 to 3.89—out of about 30 vendors.

Drug stores in particular became the most selective, dropping their brand variety from 3.74 to 3.04 during the past two to three years. In comparison, electronics stores carry 3.06 brands; food stores, 3.12; record stores, 3.22; and mass merchants, 5.09, the survey said.

The worst cuts appear to be over. Four out of five retailers don't anticipate cutting or adding brands in 1987. No brand has more than a 19% share, the survey said.

Projected VCR household penetration

Year	% of TV-owning households
1985	30.9%
1986	44.1
1987	55.5
1988	61.9
1989	66.6
1990	68.6

Source: Video Marketing

The five criteria considered most important by retailers in gauging brand sales volume were: consumer demand, tape quality, price, brand recognition and sales promotion and advertising support.

Where quality is concerned, 71% of retailers surveyed said that consumers don't understand the differences among various tape grades. "This becomes most apparent by the consumers' two most frequently asked questions," the survey said. "Is this tape good value for the money? Is the tape good overall quality?"

Despite the surge in VCR ownership, it appears many Americans are casual users of their equipment rather than technical purists and readily accept good and better grades, with relatively few demanding the best grades of tape.

While VHS format tapes account for 90% of sales and Beta 8%, 8mm should experience visible growth in 1987. Between one-quarter and one-half of all retailers surveyed in all trade classes, except for drug stores, are expected to carry 8mm hardware next year.

Retailers felt about equally strongly that national and local videotape advertising were effective ways to build sales. About seven in 10 felt this way.

In evaluating promotions, 36% favored consumer rebates, and 34% cited sales and reduced retail prices as the two favored ways to build movement. Free tapes inside multiple-packs were favored by 23% of those surveyed, and cents-off coupons by 15%.

A majority of retailers said store displays "are the most effective means to increase videotape sales," according to the survey. Some 39% used displays, and 34% used signs and banners.

Usage habits of VCR owners

Monthly activity	Incidence*	Frequency
Rented a prerecorded cassette	50%	6.3 cassettes/month (among renting households)
Purchased a prerecorded cassette	5	56% bought one; 44% bought two or more.
Purchased blank tape	13	4.3/month (among purchasing households)
Recorded	74	14.6 recordings (among recording households)
Played back	86	15.2 playbacks/month (among households that played back)

*Percentage of respondents who reported activity

Base: Total VCR households

Source: A. C. Nielsen

Facts about batteries

- Consumers used 900 million battery-operated devices in 1985, 18% more than in 1982.
- They bought over 2 billion batteries.
- Alkaline batteries will capture 75% of the total market by 1990.
- Over 90% of batteries are bought on impulse, making them one of the least planned purchases in drug stores.
- About 20% of batteries are purchased through drug stores, 29% in supermarkets and 16% in discount/catalog showrooms.
- Most alkaline batteries retain 95% of their energy for up to three years, and the average age of batteries when purchased is under 12 months, so most cells contain close to their full energy potential when they are bought.

Source: Duracell U.S.A.

Electronics, toys assure future

Battery buying binge unabated

Sharp vendor promotions and unabated demand from consumers for battery-driven toys and electronic goods are charging drug stores' battery sales, according to drug retailers.

"Customers are buying them like cookies," said Ray Crampton, assistant vp-merchandising, Dart Drug.

Moreover, the cutthroat competition by the major branded vendors, combined with the proliferation of battery-driven devices, figures to maintain batteries as a key impulse sale category through the rest of the decade.

The nation's retail battery sales were estimated at $2.5 billion in 1986, and are expected to grow 10% a year, and exceed $3.5 billion by 1990, vendors estimated.

Alkalines account for most of the growth, having surged from 15% of battery unit sales in 1975 to 62% in 1986. They are anticipated to grow at 9% to 10% a year, vendors say.

Consumers are willing to buy the alkaline cells at twice the price of the zinc-cadmium cell to obtain six times the cell

Continued on page 18

INSIDE PHARMACY®

N.Y. eyes multiform tranquilizer scripts

By Diana Sterne

ALBANY, N.Y. — New York State may soon require the use of multiple-form prescriptions for Valium and other benzodiazepines in an effort to curb prescription forgeries, drug abuse, overprescribing and Medicaid fraud.

State Health Commissioner Dr. David Axelrod proposed the new rule and, following a review by the Public Health Council, is expected to put it into effect early this year.

The new system would allow the state "to enter prescriptions into the computer and see what kinds of (prescribing) patterns are out there," said Peter Slocum, public affairs director, New York State Department of Health. One copy of the form is retained by the physician, another is used by the patient to fill the prescription and the remaining copy is sent to the commissioner's office. Slocum said the system "will make physicians more aware of the problem of overprescribing."

"The writing of an estimated 6.4 million to 8.6 million prescriptions of benzodiazepines state-

See ***N.Y.,*** *page 24*

Rx drug price study riles industry

Branded/generic costs compared

WASHINGTON — Although the nation's pharmacists pay substantially less for generics than for brand-name pharmaceuticals, consumers are not always guaranteed that they will pay less for generic prescriptions, according to a controversial study published recently.

Findings of the study, which appeared in the Nov. 14, 1986, issue of the *Journal of the American Medical Association*, conclude that drug stores tend to mark up generics more than brand drugs, both in per cent and dollars.

The study's main author, health economist Bernard S. Bloom of the University of Pennsylvania, also concluded that there are several other factors that may work against "realizing the theoretical dollar savings associated with generic substitution," including the fact that there is "often no obligation that the pharmacy pass on a major portion of the savings from their purchase of

See ***Costs,*** *page 31*

Probabilities of generic being less expensive than brand drugs

Generic	Brand	Dose	Probability of generic less expensive than brand
Conjugated estrogen	Premarin	0.625mg	0.40
Conjugated estrogen	Premarin	1.25mg	0.40
Furosemide	Lasix	20mg	0.33
Furosemide	Lasix	40mg	0.41
Chlorthalidone	Hygroton	25mg	0.78
Chlorthalidone	Hygroton	50mg	0.83
Dipyridamole	Persantine	25mg	0.91
Dipyridamole	Persantine	50mg	0.99
Hydralazine	Apresoline	25mg	0.86
Hydralazine	Apresoline	50mg	0.95
Isosorbide dinitrate	Isordil	5mg	0.87
Isosorbide dinitrate	Isordil	10mg	0.95
Isosorbide dinitrate	Isordil	20mg	0.87
Indomethacin	Indocin	25mg	0.59
Indomethacin	Indocin	50mg	0.78
Tolbutamide	Orinase	0.5g	0.82
Chlordiazepoxide	Librium	5mg	0.81
Chlordiazepoxide	Librium	10mg	0.86
Thioridazine	Mellaril	25mg	0.56
Thioridazine	Mellaril	50mg	0.58
Quinidine gluconate	Quinaglute	—	0.55

Source: *Journal of the American Medical Association*, "Cost and Price of Comparable Brand and Generic Pharmaceuticals," Bloom et al, Table 6.

Findings called misleading, dated

NEW YORK — The pharmaceutical industry attacked a study recently published in the *Journal of the American Medical Association (JAMA)* that compares prices of generics to branded drugs.

Calling the study "biased and outdated," NACDS president Bob Bolger said in a letter to the editor of *JAMA* that the study "is clearly intended to mislead both physicians and consumers regarding the cost-savings benefits associated with generic drugs.

"We strongly disagree with the study's blanket statement that shopping for the least costly generic prescription can be a costly process," said Bolger.

He said that chain drug stores are "committed to making available price information to customers" and "encourage customers to check prices by phone to determine which pharmacies have the lowest prices."

Reaction to the study was

See ***Reaction,*** *page 31*

Average chain's script sales up 20% in '85: Lilly

INDIANAPOLIS — The average chain drug store saw a 20% increase in prescription sales in 1985 to nearly $650,000, representing 28.6% of total store sales.

That was a major finding in this year's *NACDS-Lilly Digest*. According to the report, the jump in prescription sales was the highest in the *Digest*'s 15-year reporting history

The *Digest* attributed the dollar volume gain to a "marked increase in the total number of prescriptions accompanied by a $1.11 rise in the average prescription charge."

The average chain drug unit dispensed 49,925 prescriptions in 1985, up 4,430 from 1984 figures. There was less than a four-point differential between new (51.8%) and refills (48.2%).

The average cost of a prescription to a chain drug store customer was $13.01, compared with $11.09 the year before.

The high prescription volume was reflected in productivity figures as well.

According to the report,

See ***Lilly,*** *page 31*

What JAMA study leaves unsaid needs airing

A study published recently in the *Journal of the American Medical Association* (see stories this page) has caused quite a stir in the pharmaceutical community.

I really don't think it's the actual findings of the study that have everyone peeved. After all, the findings show that, overall, generics *are* less expensive to the consumer than the branded drug; but in some instances, generics cost the consumer as much as, or even more than, the brand.

That may be so, but what the report did not uncover are the reasons behind it all.

The pharmacy business has become fiercely competitive in the last decade. Pharmacists are struggling for survival, and to meet competition head-on, low-balling some widely used brand-name drugs is a necessary ingredient to that survival.

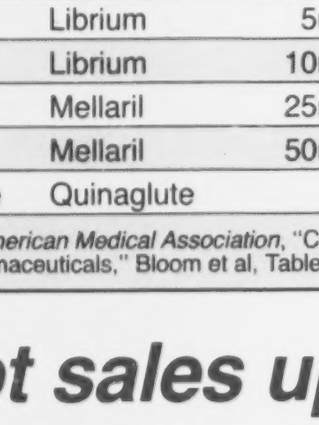
What I think is really at the heart of everyone's anger is the study's implication that pharmacists are getting rich off generics and somehow pulling the wool over the consumer's eyes.

I'm here to tell you that pharmacists today aren't getting rich off anything they sell in the drug store, especially generics.

Cohen's Capsules

Harold Cohen, R.Ph.

Pharmaceutical Editor



Oh, maybe per cent margins on generics are higher, but let's not lose sight of the fact that pharmacists are working off a much lower cost base with generics. Therefore, profit dollars for generics are very often less than for branded products.

This business of accusing pharmacists of gouging prices is an age-old problem retail pharmacy has had to face from consumer groups. Here again, in this study, it was suggested that consumers should shop around for the best prices on generics because there are wide differences in price for the same generic product in different stores.

Isn't that true of just about any product? Why should prescriptions (in this case generics) be any different?

Wide variations exist for a number of different reasons. But the two that seem always to crop up in most businesses are overhead and services. Ultimately, where the consumer buys generics (or any other drug product) will be determined by these two factors and reflected in the pharmacists' prices. Competition is healthy, and I think as business people, pharmacists should encourage price comparisons.

But unlike many other consumer buying situations, no matter what the price consumers pay for their drugs, they are always assured they are getting a product that is being dispensed by a professional. We must never lose sight of that.

I urge you as pharmacists to keep reminding the cost-conscious public that the drugs they are buying are backed by the safety that's assured by five or six years of professional education.

Any way you slice it, generic or branded, that's still a bargain, and no study in the world can refute that.

Reaction to price study heated

Continued from page 23

much the same from Perry Drug, where Berl Falbaum, spokesman for the Pontiac, Mich.-based chain, called the study "flawed and distorted."

Falbaum said the study tears down years of trying to educate the consumer on the cost savings associated with purchasing generics.

At the New York City headquarters of the Generic Pharmaceutical Industry Association (GPIA), reaction was heated.

"This is another outrageous effort to mislead physicians and consumers about the benefits of generic drugs," said Dee Fensterer, GPIA president.

Referring to funding for the study that came from Ayerst Laboratories, Fensterer said that "this study is a blatant drug company attempt to persuade doctors to prescribe high-priced brand-name drugs."

Ayerst Laboratories declined to comment on the report or on Fensterer's remarks.

At the American Pharmaceutical Association (APhA), Ron Williams, director of communications, said that the study had no surprises for him.

"If the study had shown significant similarities rather than significant differences between generic and branded pricing, I would have been surprised," said Williams. "The study just reflects a highly competitive market."

Williams said he was somewhat disturbed that the study did not address the costs involved in "varying levels of pharmacy services" and the use of certain branded drugs as "loss leaders."

For Todd Dankmyer, vp of communications at the National Association of Retail Druggists (NARD), the *JAMA* report was done too soon after passage of the Drug Price Competition and Patent Term Restoration Act of 1984.

"This study was done in the early months after passage of that act," said Dankmyer.

Lilly Digest reports

Continued from page 23

prescription revenue per square foot of professional area rose to over $1,325, while sales productivity for the non-prescription area fell 17% to about $167 per square foot. Overall, total sales per square foot fell about 10% to just over $220.

The *Digest* cited third-party programs as a major factor in the unusual rise in the average prescription charge.

"Historically, the major determinant of [the average prescription price] has been the number of units dispensed on each prescription. Third-party programs, especially, have accelerated the quantity of medication dispensed on each order," said the report.

Turning its attention to gross margin, the *Digest* revealed that the average gross margin in a chain drug store unit rose 0.5% to $642,017 in 1985 from $638,625 in 1984, based on total sales of $2.3 million.

This is the last issue of the *Digest* that will be published, because most chains today rely on their own system of tracking and reporting, the editors said.

Branded/generic costs compared

Continued from page 23

generic drugs to the consumer."

Although half the states do require that some or all of the savings attributed to generics be passed on to the consumer, Bloom suggested that if such a requirement was in effect in all states, consumers would realize a savings.

However, what Bloom and his colleagues did not point out in their conclusion was data from their study showing that both generics and brand name drugs generally cost the consumer more money in states with pass-through savings laws than in those states that do not have such regulations.

On the average, consumers can save money purchasing generics, Bloom said, noting that for 18 of the 21 pairs of drugs studied, the brand-name drug had a higher median price per pill to the consumer than the generic.

However, the data also show that in one case, consumers paid a median price of 13.8 cents per pill for generic furosemide (20mg), compared with a median price of 13.5 cents for brand-name counterpart Lasix (20mg), while the median cost per pill to the pharmacy was 4.2 cents for furosemide and 7.5 cents for Lasix.

In another case, prices for generic conjugated estrogen and the equivalent brand Premarin in 0.625mg dose both cost consumers a median of 12.7 cents per pill, but cost the pharmacy a median of 4.9 and 8.6 cents, respectively, per pill.

(According to Dr. Bloom, the third case involved furosemide and Lasix in 40mg dose, but because of an error that was not caught until after the study went to press in *JAMA*, Table 2 in the published article does not reflect this finding.)

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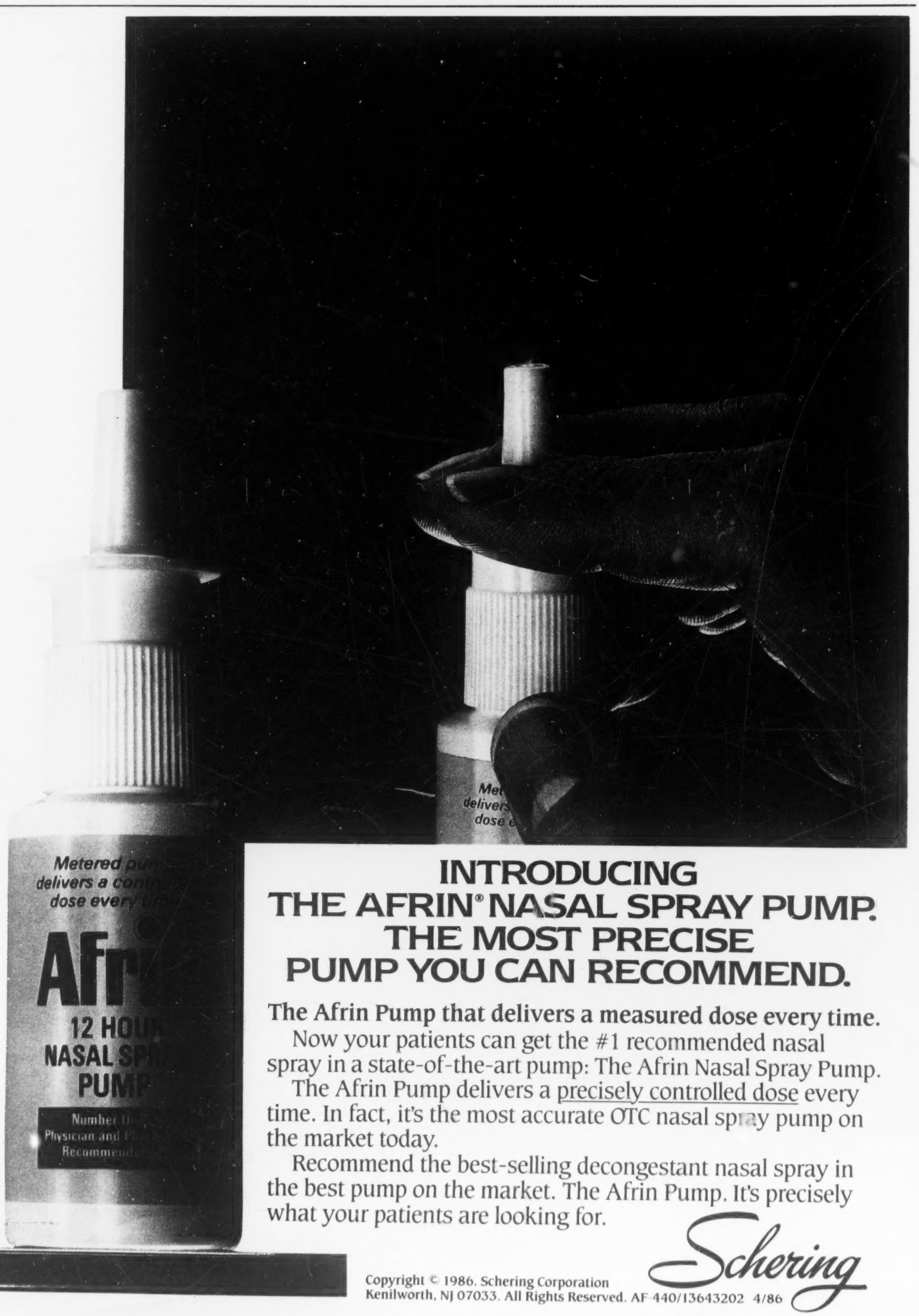

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l in-store radio
?—page 4

Gladson Planograming:
Strategies for selling children's vitamins—page 14

DRUG STORE NEWS

Vol. 9/No. 2 **Serving chains, wholesalers and high-volume independents for 57 years.** Published by Lebhar-Friedman Inc. January 19, 1987

Kroger:
Buying combos in Fla. . . .

CINCINNATI — Kroger is on the way to tripling its store count in Florida, as it introduces full-size combo units for the first time in the Sunshine State.

The chain will launch a new version of its combo store to spearhead growth, primarily in Orlando and the southeast. In December, Kroger bought 21 A&P Family Mart stores, which will be used to implant the new prototype in the Tampa-St. Petersburg market.

Called Florida Choice Food and Drug, the stores will be similar in size to Kroger's typical combo, at 55,000 sq. ft., but tailored to the Florida market. Changes include more and larger service departments, expanded greeting card and optical sections and more convenience food.

Food Choice banner

Kroger's 27 SupeRx Food and Drug stores—the 21,000- to 26,000-sq.-ft. minicombos that were operated until a year ago by Kroger's former SupeRx Drug division—will take on the Food Choice banner.

About 20 new Food Choice units are planned through ground-up construction and buyouts. Kroger recently bought two Orlando stores and three in Naples slated for conversion.

See related story, page 3

A Kroger source said that its Florida growth agenda is "fairly tentative."

Thirteen of the 56,000-sq.-ft. A&P units are in the Tampa-St. Petersburg market. Others, which are scattered statewide, will also be converted to the Florida Choice format.

"The key to the Family Mart acquisition is it allows us

See **Kroger,** *page 53*

. . . Creating bigger ones in Ariz.

PHOENIX — Kroger will give Fry's more sizzle. It plans to combine as many as eight with adjacent SupeRx stores here and in Tucson, market sources said.

The linkage would create a larger combination store prototype that would build off Fry's grocery goods strength in this hot market.

The teaming, which Kroger officials were unable to confirm at presstime, apparently stems in part from the supermarket giant's inability to unload the 38-store SupeRx division here.

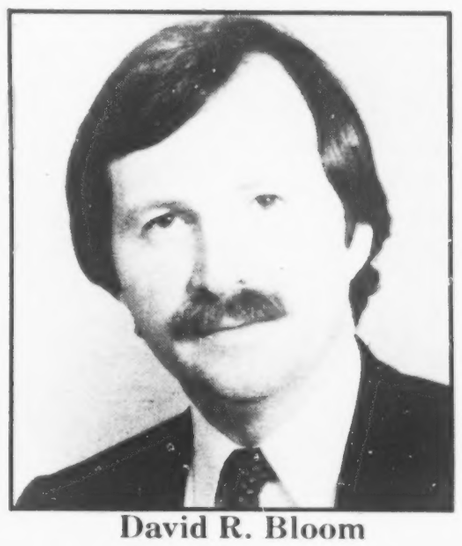
Sources said that such local competitors as Walgreens, Osco and Longs showed interest in buying selected stores. But Kroger wants to sell them as a package, as it leaves the drug store business.

The chain presumably would keep the SupeRx stores that share a common wall with Fry's units in shopping center locations. Fry has 32 50,000-sq.-ft. to 58,000-sq.-ft. stores in the greater Phoenix market and about six in Tucson. Twenty-one of these have pharmacies.

The chain is known as a highly aggressive food merchandiser that until now, has relegated nonfood to a secondary role in the face of the tough drug store environment.

"Fry's is just doing a super job out in the market," commented one local wholesaler.

Sheldon 'Bud' Fantle



David R. Bloom

Fantle retiring; Imasco to merge Shoppers/Peoples

After 40 years with Peoples Drug, Sheldon 'Bud' Fantle, chairman, president and ceo, is retiring.

Simultaneously, Peoples' parent company, Imasco Ltd. of Canada, is immediately merging the Peoples Drug chain with its sister drug chain, Shoppers Drug Mart of Toronto and creating a new retail division: the Imasco Drug Retailing Group.

David R. Bloom, a 23-year veteran of Shoppers and its ceo since 1983, has been named ceo of the new division.

In announcing Fantle's retirement, Purdy Crawford, the president and ceo of Imasco Ltd., described Fantle's years with the company as a "model of achievement" and noted that under his leadership, Peoples has grown to a chain of 851 stores generating sales of $1.8 billion in Canadian currency.

"Our challenge now," said Crawford, "is to build on Bud's outstanding legacy.

Crawford added that since Imasco acquired Peoples in 1984, management at both Shoppers and Peoples have come to know one another.

Crawford added that under Bloom's leadership, both chains should be able to profit from their mutual understandings.

Shoppers Drug in 1986 had sales of nearly $1.6 billion (Canadian) and operates a total of 542 drug and deep discount drug stores.

Drug store worker output drops

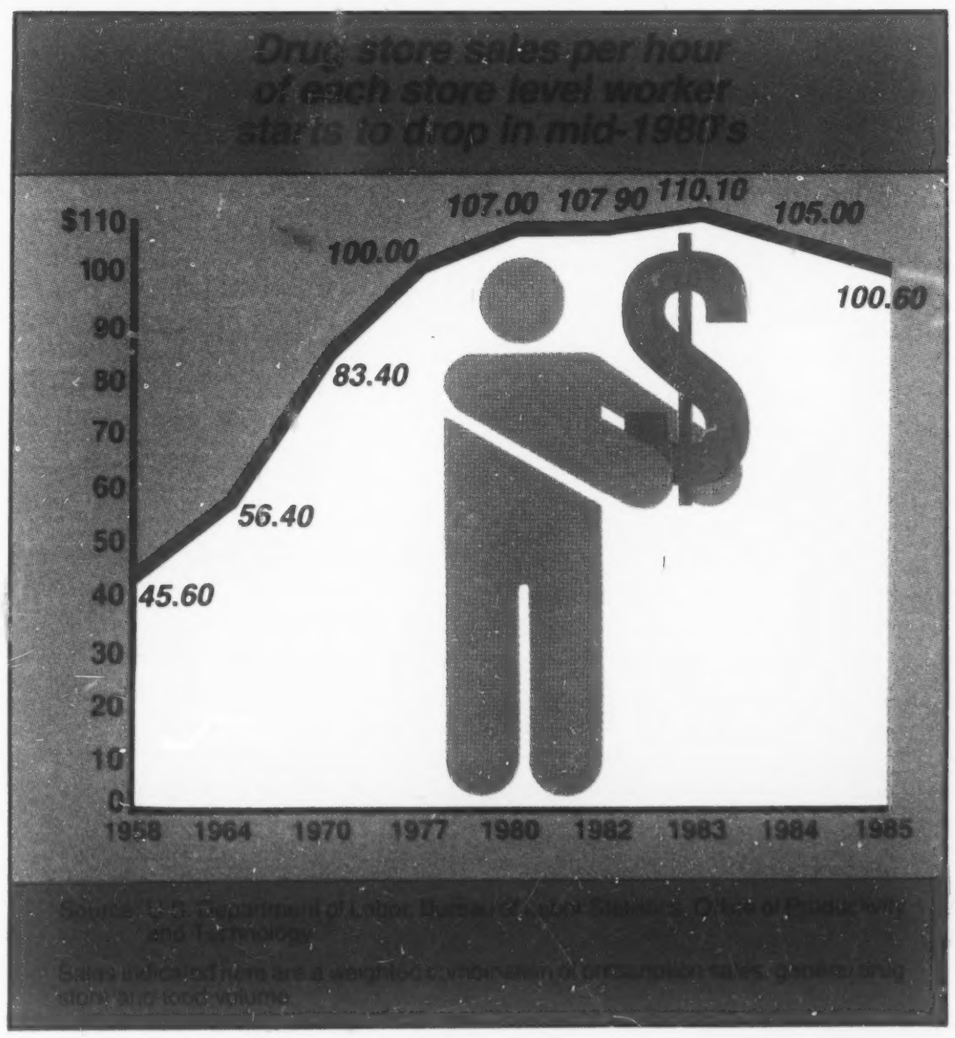
This is the first of a two-part series. In Part Two, which will appear in an upcoming issue, Drug Store News *will examine the industry's productivity concerns and how they will act upon them.*

WASHINGTON — Drug store industry employee productivity dropped significantly in the 1980's, ending more than 20 years of steadily increasing worker output, according to figures compiled by the U.S. Department of Labor.

In addition, department researchers see no letup in the productivity tailspin among the nation's drug and proprietary stores. Preliminary evaluation of data for 1986 indicates that productivity "will remain flat at best" and probably will continue to drop, they said.

That's more bad news for the drug store industry, where output per worker fell more than 6% in two years

See **Output,** *page 53*



Revco's buyout is based on past profits record

By Dave Vaczek

TWINSBURG, Ohio — The Anac group based its buyout of Revco on projections that the drug store division would grow sales 12% annually and garner 7.7% operating profits each year into the 1990's.

Drug division performance will have to cover an annual debt cost of more than $150 million a year, or five times what Revco paid as a public company, according to a final prospectus dated Dec. 18. Shareholders endorsed the leveraged buyout Dec. 16.

"We can do better than 7.7% if we do things right," said Robert Meisel, president of D.S. Corp. Ltd., a subsidiary of Transcontinental Services Group, NV, the new majority owner of Revco D.S.

"The growth opportunities were always in the drug stores and in Odd Lot," Meisel said of the divisions that account for over 90% of corporate sales.

These divisions, plus the seven subsidiaries earmarked for sale, grew sales an average 13% each year from 1982 to 1987, with 10% growth forecast for the 1987 year ending in May, an analysis of the prospectus shows.

The average operating profit ratio in these years was 6%, a multiple that was dragged down in fiscal 1985, when drug division performance and non-drug-group cost factors ham-

See **Revco,** *page 53*

Bellini bid hinges on financing

CLEVELAND — A bid by Gray Drug president Carl Bellini to purchase the bulk of the chain from parent company Sherwin-Williams still hangs on Bellini's ability to line up the necessary financing. That process could take several months, according to Sherwin-Williams.

In a related development, former Gray president Al Towle told *Drug Store News* that his earlier bid for the 358 stores sought by Bellini remains on the table. Towle, who ran the troubled drug chain from December 1981 to October 1983, was rejected as a suitor in late December in favor of an inside management group led by Gray's current president.

"My deal was financed and ready to go," Towle said.

Sherwin-Williams announced in late December that it had agreed in principle to sell 81 Gray Drug stores in Florida and 22 Drug Fair stores in Baltimore to Rite Aid. Simultaneously, it announced its intention to sell the remaining 358 units in Ohio, Virginia and elsewhere to the Bellini group. "We expect both deals will be finalized by early spring," said Sherwin-Williams spokeswoman Diane McCormick. "The sale to Rite Aid is subject to various government approvals and an evaluation of the inventory in the stores to determine the final selling price. The deal with the Bellini group is subject to the arrangement of necessary financing."

No purchase price has been revealed for the stores, but market analysts have estimated the entire chain would fetch between $200 million and $250 million. Analyst Jeff Stein of McDonald & Co. Securities in Chicago estimates Gray earned operating profits of $10 million to $11 million in 1986.

Publix builds Fla. presence with combo store push

LAKELAND, Fla. — Publix Super Markets, the $3.5 billion Florida food chain, has jumped out quickly in its race to penetrate the food and drug combination store market.

With five 56,000-sq.-ft. stores already launched in the final quarter of 1986, Publix has "more on the drawing boards" for this year, said Clayton Hollis, director of public affairs and public relations.

Publix is making its push at the same time that other food and drug operators, including Albertson's and Kroger, are moving vigorously to gain market share in Florida.

Hollis said Publix' initial five combo stores had done "remarkably well" with their 900-1,000-sq.-ft. pharmacies and were already breaking even. He said script volume has been "much greater" than anticipated.

To generate pharmacy sales, the chain used $5-off coupons for new and transferred scripts during the open week of each store, but Hollis said the main reason for the chain's success with its newly launched pharmacy departments is "the trust people have in Publix."

Rx launch

Indeed, many observers predicted that the 56-year-old company, which has all of its 310 stores in Florida, would have no trouble entering the prescription market because of its strong public image in the Sunshine State.

Hollis said Publix had "a tremendous number of people" apply for jobs in pharmacy after word began to circulate that the company would be opening combos.

"We told pharmacists that we wanted a 'hands-on' operation," Hollis said. "We didn't want to stick our pharmacists behind glass cages." Hollis said it was that approach that appealed to pharmacists.

Ron Miller, a pharmacist and former Eckerd supervisor, is heading up Rx operations for the chain.

Publix has positioned the pharmacy department to the left of the front entrance, overlooking the expanded H&BA and cosmetics departments. About 30% of the combos' selling space is devoted to nonfoods, including Rx, H&BA, cosmetics, greeting cards, one-hour photo and general merchandise. The rest is food, with a heavy emphasis on perishables.

Each of the five new prescription departments has either two or three full-time pharmacists, depending on volume, and two assistants to bring up orders and help stock.

The departments are all equipped with on-line pharmacy computer systems, which allow pharmacists in any store to call up patient profiles from other stores.

The combo stores opened so far are in Tampa (2), Orlando (1) and the Fort Lauderdale area (2). Hollis said the chain would still open 38,000-40,000-sq.-ft. superstores without pharmacies in communities with strong drug store operators.

NEWS IN BRIEF

Vons Grocery, Allied marts to merge

EL MONTE, Calif. — Vons Grocery and Allied Supermarkets of Detroit have entered into a merger agreement in a transaction valued at about $700 million in cash, Allied stock and the assumption of debt. In a related development, however, Allied's Board of Directors agreed to sell that company's existing 24-store operation to a group of investors headed by chairman and ceo David Page, for a pricetag of $46 million.

The Page group will also assume $20 million in outstanding debt for the Detroit stores.

The merger agreement, announced Dec. 31, is subject to regulatory conditions and the approval of necessary financing. The new company will be called Vons Companies, headquartered in El Monte.

Bergen adds to Good Neighbor program

ORANGE, Calif. — Bergen Brunswig's Good Neighbor Pharmacy group has launched a new monthly newspaper ad program for retailers who may not want to run all of the group's advertising circulars but do want a consistent ad program.

The monthly ads will feature 24 items from categories including H&BA, household supplies, GNP private-label goods, candy and snacks, and other sundry items.

Good Neighbor Pharmacy is a comprehensive ad and promotional program administered by Bergen Brunswig, the nation's second largest drug wholesaler.

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Vol. 9, No. 2 January 19, 1987

Albertson's maps '87 growth plans

BOISE, Idaho — Albertson's will open 30 superstore and combo stores in Texas, California and Florida in 1987 in the first year of its 160-store, five-year growth plan.

The nation's eighth-largest food chain ($5 billion-plus annual sales) is targeting superstore growth in California, with 12 stores planned in 1987. Five units will be in Sacramento and the rest in the Los Angeles area, according to Gary Michael, Albertson's vice chairman and cfo.

Combination store growth will continue in Texas and Florida, with Texas expansion centered in the Dallas-Fort Worth metroplex, which Albertson's entered two years ago. Four more stores are planned in this Texas market in 1987.

The chain is settling for a five-store combo expansion in Florida, after missing a shot at the 21-unit A&P Family Mart chain, when A&P sold the combo stores to Kroger in December.

"We thought we had a deal, but they called us up one day and told us they were selling to Kroger," said Michael.

Stores will be added in Orlando, Palm Beach County and Jackson, raising total Florida penetration to 60 units.

Michael said several superstores will also be opened in Oregon and Washington markets, near its newly planned 500,000-sq.-ft. distribution center. Ground-breaking on the Portland-based DC is slated for late 1987, with the facility supporting Northwestern stores in late 1988.

The 454-store chain projects sales at fiscal year's end (Jan. 29) of $5.35 billion, up 6% from 1985, Michael said.

Earnings should hit $95 million to $97 million, or $2.80 to $2.90 per share, up 8% to 14% from the previous year, Michael forecast.

London Drugs opens 2 units in Calgary

CALGARY, Alberta — London Drugs Ltd., operator of some of the highest-volume stores in the chain drug industry, has cracked this key market in Western Canada with two new units. The newest London drug and general merchandise stores, opened late last year, bring to 28 the number of stores operated by the chain, based in Vancouver, British Columbia.

The newest store openings also add significantly to London's growing strength in Alberta, where it already operates five stores in Edmonton and a sixth in nearby Red Deer. The chain has been on a push eastward for several years and will open at least two more units in Calgary in 1987, according to senior vp Mark Nussbaum.

The newest stores are about 1,500 sq. ft. larger than older London Drugs formats, with 17,000 sq. ft. of selling space and a floor plan totaling about 21,500 sq. ft. Newer London stores include large book departments; all units contain one-hour photofinishing labs.

F.T.C. eases Fed fines on out-of-stock ad items

WASHINGTON — Federal Trade Commission staffers formally rejected proposals to subject drug stores and other nonfood retailers to harsh government penalties for failing to stock sufficient quantities of advertised products.

Instead, officials at the F.T.C.'s Bureau of Consumer Protection proposed relaxing current Federal rules under which supermarkets are vulnerable to $10,000 Federal fines for running out of promoted merchandise.

During full-dress hearings on the rules, union leaders joined with Iowa Attorney General Thomas Miller in urging the F.T.C. to expand the regulation "to cover a wider variety of retailers"—including chain and independent drug stores.

After reviewing that testimony for more than a year, F.T.C. staffers late last month curtly dismissed proposals for a broad out-of-stock prohibition affecting nonfood retailers.

Instead, William MacLeod, F.T.C. Consumer Protection Bureau Chief, issued a 172-page report concluding that the current rule should either be relaxed or abolished altogether.

Under the plan advanced by commission staffers, the regulation would be modified to enable grocers to comply with the rule by offering "rainchecks" or "comparable value" substitute items for out-of-stock merchandise.

Additionally, the staff proposal would allow food retailers to avoid the risk of penalties altogether by using disclaimers in advertising to inform shoppers that quantities are limited, or not available at all locations.

INSIDE PHARMACY

Self-testing

Method of testing	Total	Age 0-24	25-44	45-64	65+
Urine	63%	72%	65%	65%	59%
Blood					
insulin users	28	55	40	26	16
noninsulin users	5	—	13	4	2
all diabetics	16	58	30	13	3
Both urine and blood	10	40	19	9	4
Urine only	53	32	46	56	55
Blood only	6	18	11	4	3
Neither	31	9	24	31	38

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How diabetics control their disease

Therapy	Total	Age 12-34	35-44	45-54	55-64	65-74
Currently using insulin	27%	46%	47%	22%	21%	24%
Currently using diabetes pills	35	7	15	34	39	47
Currently using a written diet	48	35	46	48	53	48
Using diet only	14	6	9	16	19	12
Using insulin and written diet	18	22	32	17	15	16
Using pills and written diet	16	7	4	15	19	20
Not currently using insulin/pills/diet	24	41	29	26	21	17
Ever used insulin	2	4	0	6	1	1
Ever used diabetes pills	8	7	8	7	10	8

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Pharmacists' role in helping diabetics grows

NEW YORK — The French say, *plus ça change, plus le même chose*—the more things change, the more they stay the same. This could be the motto for the diabetic products market.

It is a market going through rapid changes, with more on the way. Yet pharmacists are in the same position as before, serving as a source of information and advice to the diabetic customer.

A person with diabetes is likely to see a pharmacist five times as often as any other health professional, according to Keith Campbell, R.Ph., professor of clinical pharmacy at Washington State University and a certified diabetes educator (CDE). "Ninety per cent of all diabetes supplies are bought in pharmacies," he added, with the remainder obtained by mail or through surgical supply houses.

Pharmacists are in an ideal position to educate people with diabetes. More than 120 different products for use by diabetics are available in pharmacies, and almost all would benefit from some explanation. "The pressure is on the pharmacist to become more involved," Campbell said.

Although the educational role of the pharmacist is changing, it is separate from that of the nurse-educator, Campbell pointed out. The pharmacist who deals with diabetic patients also acts as a monitor and a referral source. As a monitor, the pharmacist can keep track of prescriptions and drug-related problems. As a referral source, the pharmacist can encourage patients to see their physician, ophthalmologist or dietician for appropriate care.

Monitoring blood glucose

But the products the pharmacist can provide information about are evolving. The major recent change in the diabetic market is the advent of blood glucose monitoring.

"The only thing I'd seen change in 38 years is that needles got sharper and smaller. Then blood glucose monitoring came along," said Campbell, himself a diabetic. Monitoring blood glucose levels allows a diabetic to maintain extremely good control over the disease.

The market for monitors, lancets, test strips and other paraphernalia is growing at a rate of 20% per year, according to Campbell, and monitors are getting smaller, easier to use and more precise.

Future blood glucose monitors will measure a chemical reaction rather than a color change on a test strip. Others will use newly developed membranes to filter out everything from the sample but the glucose. These future monitors would probably be more expensive than those available today, Campbell remarked, but will be better.

The pharmacist can take an active role in switching a patient from monitoring glucose levels through urine testing to monitoring blood glucose, Campbell said. "Urine tests show where you've been rather than where you are now." It is also far less exact than blood testing. "Not enough diabetics are testing often enough," he stressed.

But patients—either newly diagnosed diabetics or older patients being switched from urine testing systems—must be trained to use blood glucose monitors. Patients who choose to use jet injectors or insulin pumps must also be properly trained.

Pharmacists' role expanded

Some pharmacists are finding this educational role a perfect fit, one that has not so much changed, as expanded, said Peter Esposito, R.Ph., CDE, who educates diabetic patients at diabetes control centers in three Metro Drug pharmacies in northern New Jersey. Where pharmacists once focused on telling diabetics about their medications, they now also discuss equipment and keeping tight control over diabetes.

"[The pharmacist's role] has changed from a medicine-oriented one to an equipment-oriented one," said Esposito, who helps train newly diagnosed patients still in the hospital and vision-impaired patients with the use of a monitor that features an electronic voice to announce results.

Because equipment education is so important, some manufacturers of monitors are going straight for the consumers, offering audiocassettes and toll-free hotlines to help diabetics with product problems, said Maryellen Kari, spokeswoman for the Walgreen Co. However, the pharmacist is still central in educating the patient on how to use the monitor, she added. "The information is changing, but the pharmacist is still educating the patient."

Insulin pump potential

Insulin pumps are another area of diabetes care where pharmacists are now taking a hand. Until recently, insulin

Continued on page IP22

Bulk copies of the American Diabetes Association's (ADA) quarterly consumer newsletter, *Diabetes '87*, are available free to pharmacists to distribute to their diabetes customers. *Diabetes '87* includes tips on diabetes management, lifestyle and latest research developments. Bulk copies can be ordered by calling ADA's circulation department toll-free at 1-800-ADA-DISC or by writing to the ADA, 1660 Duke St., Alexandria, Va. 22314.

Frequency of testing by diabetics

Frequency of self-testing blood glucose:	Total	Percent of testers by age group 0-24	25-44	45-64	65+
More than three times per day	9	15	10	6	5
Three times a day	8	13	10	5	3
Twice a day	18	21	17	20	10
Once a day	29	30	27	30	28
Two to six times a week	13	9	12	13	17
Once a week	11	5	9	12	16
Two to three times a month	2	1	2	3	3
Once a month	4	1	3	4	7
Less frequently than monthly	7	4	10	5	9

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INSIDE PHARMACY

Rxers' role expands with diabetes market

Continued from page IP20
pumps were only distributed through physicians' offices, and physicians oversaw the instruction. Now, Esposito carries Becton-Dickinson's new line of minipumps and trains patients with them. The market for pumps is relatively stagnant, he said, but those patients who adjust to it prefer the method. As pumps become simpler to use, he sees this market growing.

The insulin side of the diabetic market is also changing, but not as rapidly as the equipment side, Campbell noted. Much of the change stems from the availability of pure human insulin from recombinent DNA technology (Lilly's Humulin) and semi-synthetic human insulin processed from pork insulin (Squibb-Novo's Novolin). Humulin's market share is growing, especially with younger or newer diabetics, and the product now accounts for 80% of the human insulin market. Lilly insulin products account for 70% of the insulin market as a whole, according to Campbell.

But change can bring confusion. Many insulin manufacturers are telling pharmacists it is all right to tell patients to switch insulins, according to Campbell, but a patient who is stabilized on one brand and happy with it should not be switched.

Insulin developments

Further changes in the insulin market may be on the way during the next four to five years. California Biotechnology and Lilly are developing an insulin in a nasal spray that would eliminate the need for injections. (See *Drug Store News*, Nov. 10.) However, irritation to the nasal mucosa may limit the usefulness of an insulin spray, Campbell said.

Researchers at the Medical College of Ohio, Bowling Green (Ohio) State University and the University of Washington are working on oral insulin tablets coated with polymers. This coating would protect insulin from digestion in the stomach and small intestine, according to Jim Richards, director of communication at the Medical College of Ohio. Bacteria in the large intestine would then attack the polymer and allow the release of insulin.

Similarly, insulin in suppository form would also avoid digestion in the upper gastrointestinal tract.

However, Campbell warns that absorption in the large intestine varies a great deal from patient to patient, and these future insulin products may not be practical. Other delivery technologies, such as an insulin patch, also may not be practical, he said, because insulin is a large molecule and difficult to get through skin.

Need time to accept

Future insulins such as these may take some time to become accepted, if and when they become available, Esposito added, because diabetic patients—and their doctors—don't make insulin changes without strong reason.

But new products will continue to come on the market, and information about diabetes treatment will continue to expand. Thus, pharmacists who help diabetic customers will remain in their established role as sources of information.

Medicaid program 'auction' plan urged

WASHINGTON — F.T.C. officials urged the Health Care Financing Administration to trim third-party government drug costs by "auctioning off" the right to participate in the Medicaid Rx program to low-bidder pharmacies.

Such an auction system could be used with any of the three Medicaid reimbursement reform proposals under consideration by H.C.F.A. The auctioning would "result in the lowest-cost distribution systems consistent with H.C.F.A.'s mandate," F.T.C. staffers said.

Commission officials advanced their controversial Medicaid pharmacy auction plan in response to H.C.F.A.'s request for comments on its three proposed alternative Rx reimbursement approaches: a Competitive Incentive Plan (CIP), a Pharmacist Incentive Plan (PhIP), and a streamlined version of the current Maximum Allowable Cost/Estimated Acquisition Cost.

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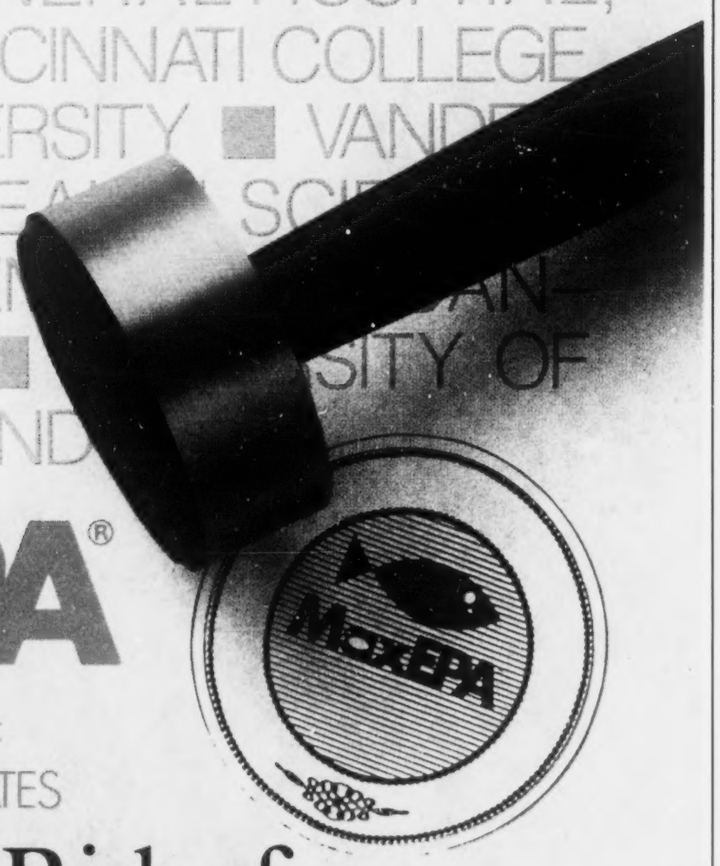

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Revco buyout plan

Continued from page 1

pered operating profits, which were 3.5% of sales that year.

Stabilizing strategy

But management through the last year has set in place operations and marketing programs that are expected to stabilize and build drug store profitability, while the chain keeps its "everyday discount" and strong pharmacy identity.

Revco will retrofit all stores by June 10, 1987, reduce inventory by $75 million by the end of 1987 and work to pare S&GA expenses by $24 million, according to the prospectus.

While planning to open 100 stores a year for the next five years, heavily in small town Southeastern markets, Revco will also close a total of 100 units and curtail remodels. Since 75% of stores are new or have been remodeled in the past five years, capital expenses can be reduced by about 55% a year compared to average recent outlays. The capital budget ceiling is $37.5 million in 1987 and $30 million a year thereafter, the prospectus says.

Debt structure

The debt structure is based on paying the bulk of a $455 million bank loan by collecting at least $225 million through the sale of the seven subsidiaries, the 100 drug stores and several distribution centers. That will reduce the loan to $170 million by November 1988, with the remainder of principle and interest paid off through excess cash flow.

Cash flow starting this year will cover the annual interest expenses from three note sales and on an $85 million convertible preferred stock sale, paying 12% per year. The notes, being sold by the two Anac companies formed to own Revco, are: $400 million of 13.1% senior subordinated notes due 1994, $210 million of 13.3% subordinated notes due 1996, and $93.8 million of 13.3% junior subordinated notes due 2001.

If the merger had been in effect in the 1986 fiscal year, interest costs would have been $156 million, according to a pro forma scenario in the prospectus. Actual interest in that year was $28.99 million. Profits before depreciation, amortization, interest and income taxes—assuming the merger was in effect—would have been $164.3 million, enough to cover the post-merger interest cost that the pro forma forecasts.

If the company sustains strong cash flow and contains expenses sufficiently, it could have significant dollars to pay back principle on the notes that first falls due in 1993.

Who the new Revco owners are

Transcontinental Services Group, N.V., is an investment holding company whose last big deal was taking Seligman and Katz Inc.—the owner of Adrien Arpel cosmetics—private last year. TSG joined Harold Geneen, the former ITT chairman, in buying the company, a $400 million business that also operates jewelry and beauty salons in department stores.

TSG is based in the Netherlands Antilles and is traded on the London Stock Exchange. Its chairman and executive director, Nathaniel de Rothschild, 40, will be a Revco director.

D.S. Partners L.P. (with the initials standing for "drug stores") is a subsidiary formed by TSG Holdings Inc., TSG's U.S. management company, to take Revco private. D.S. Corp. Ltd. is the general partner of D.S. Partners, with Robert Meisel, 31, president of D.S. Corp. Meisel also has been a vice president of TSG since July 1985.

A stockholders' agreement in the Revco LBO establishes a voting trust that covers all shares. Two of four trustees will be from TSG and two from Revco management investors—initially chairman Sidney Dworkin and president Bill Edwards. The trust will name a nine-member board of directors, with three directors picked by Dworkin and Edwards and two by TSG. Another director will be Glen Golenberg, who arranged the LBO and whose company owns a minority interest. Also, holders of the convertible preferred stock will name one. Salomon Brothers, another investor, will pick one itself, and jointly pick another with TSG.

Star adds home health

Continued from page 3

greens, Osco, Revco, Thrifty, Drug Emporium and Longs), in addition to pharmacy departments in K mart, Fry's combos and Safeway superstores. Thus, the decision to go into home health care eight years ago was a profit-protection move on Defender's part.

Says Lyle Crandall, chairman: "There is no way we're going to make it competing with drug chains on drugstore merchandise. It's true that investment in home health care is substantial—$200,000—but gross margins average 41%-42%, as compared with 30%-32% for drug store merchandise.

"But most important is the nature of the competition in home health care. It's fractured. Some stores deal in surgical supplies, others in wheel goods and still others in oxygen needs. But there are no chains. So by offering complete services under one roof, we are well positioned for increased market share."

P.O. substations

For many years Defender has operated post office substations in its stores (located adjacent to greeting cards). It's another way of building traffic and offering a service that the drug chains don't.

Now Defender is extending the size of some post office substations by 175 sq. ft., to include gift and parcel wrapping. The first store with the expanded P.O. department is on Lowell Road in Tucson.

Crandall says that the mailing center concept will be expanded to two or three other stores.

Where is the 175 sq. ft. coming from? The store's backroom, which has as much as 1,000 sq. ft.

One department that Defender is not expanding is drive-through prescription service, now in two stores.

"For one thing, a store must be on a corner—it can't be sandwiched between two buildings," said Crandall, "and that limits potential locations. But more than that, parking space is too costly for a drive-through Rx.

Worker output declining

Continued from page 1

(1983-1985). The decline reversed a 25-year productivity growth spurt, during which "real" (after inflation) sales per person shot up 87%.

Sharp reversal

A more refined Labor Department index (measuring output per hour for all workers) indicates that the negative trend in drug store productivity may be even more dramatic. Per-hour productivity in the industry showed an 8½% drop from 1983 through 1985. The decline followed a massive increase of 141% in industry productivity during the previous 25 years.

The sharp drops in drug store worker output appear even more significant when compared to overall nonfarm business productivity. Drug stores are one of the industries failing to keep pace with the continuing upward.

For example, non-farm businesses as a whole continued a steady rise in productivity, managing a small gain in 1985 of less than 1%. (A similar increase in 1986 appears probable, based on figures for the first three quarters.) In contrast, during 1985, drug and proprietary store productivity dropped more than 4%, compounding a 4½% decline suffered the previous year.

Cause of drop

The immediate cause of the productivity dip appears clear enough. More people worked more hours in drug stores during both 1984 and 1985, but sales did not increase proportionately.

But the reasons behind these changes are more elusive. Asked about the negative productivity trend, drug store industry officials at both the corporate and the store level tended to answer: "Not us." They also mainly discounted the government productivity statistics as an indication of declining employee efficiency.

One chain drug store manager suggested that high turnover in employees contributed to the dropping productivity rate. Others contend, however, that turnover has always been a part of the industry and is no worse than during the 20-year period when productivity skyrocketed.

Santa is a no show

Continued from page 3

and treasurer. Another Longs executive estimated that sales for the season were up about 10% over the previous year.

Year-end sales at London Drugs in Vancouver, B.C., were "way up" over last year's level, according to Mark Nussbaum, senior vice president and secretary. "Women's and men's fragrances were flat this year, but electronics, appliances and photofinishing were extremely good for us this year," Nussbaum said.

Across Canada, the outlook was more subdued. "Retailers were not overly excited by Christmas this year, but last year was so great it would have been hard to match," said Arthur Konviser, chief spokesman for Shoppers Drug Mart and a member of the Retail Advisory Board of Canada.

To some extent, Konviser added, that more conservative attitude worked in favor of Shoppers. "It was quite a buoyant Christmas for us," he said. "People tended to downsize in their purchases and go for lower-ticket items, and that helped us because that's what we specialize in."

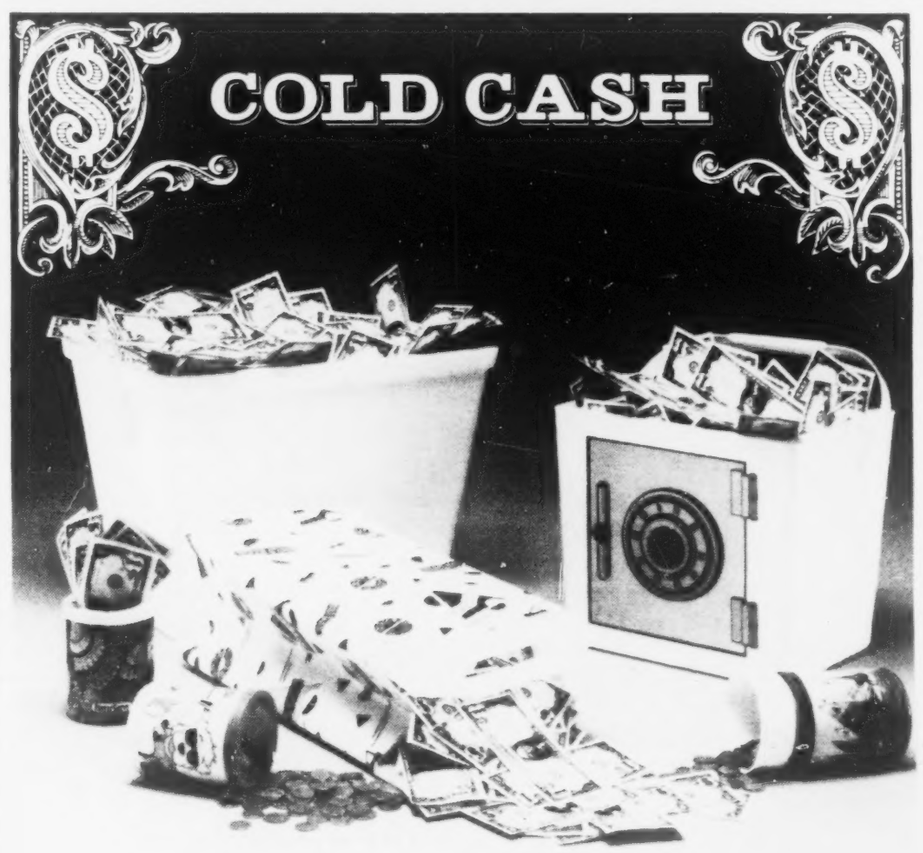
Kroger buys combos in Fla.

Continued from page 1

to move into Tampa-St. Petersburg," said a Kroger spokesman.

'Store and restore'

In using the combo as a key growth vehicle, Kroger plans to "store and restore" in markets it already serves, with any entry into new markets made via acquisitions, the spokesman said. The "restoring" will typically involve replacing its small supermarkets with full-size combos, he added.



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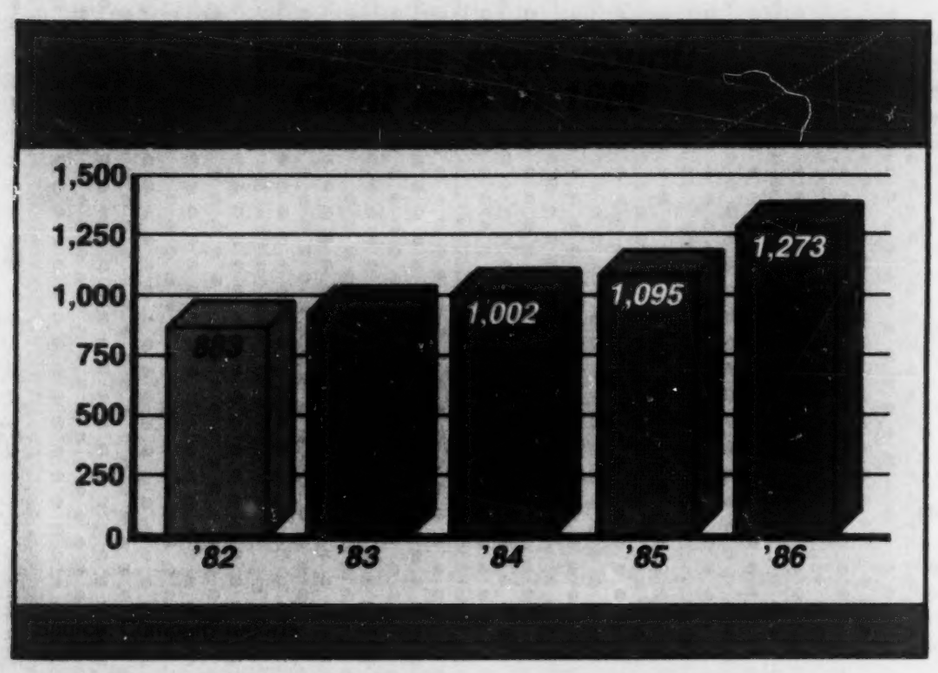
DRUG STORE NEWS

Vol. 9/No. 3 **Serving chains, wholesalers and high-volume independents for 57 years.** Published by Lebhar-Friedman Inc. February 2, 1987



Walgreens signals full steam ahead

Doubles advertising budget to $130M

By Jim Frederick

CHICAGO — Walgreen Co. will maintain the scorching expansion and modernization pace it set last year, with continued heavy expenditures for store openings, acquisitions and renovations, chairman Charles Walgreen III told shareholders at the annual meeting here Jan. 14.

"More than ever today, people want easy-to-reach and easy-to-shop stores—Walgreen stores," the chairman told a packed audience of some 500 at the First National Bank of Chicago. "That's why we plan to open at least 100 stores a year for the foreseeable future. And—depending on what's available—average 20 to 30 more stores per year by acquisition."

In addition, he said, the nation's highest volume drug chain would double its advertising budget to about $130 million this year as part of an aggressive bid to strengthen market share and capitalize on the gains it made last year, when it boosted its share in 32 of its top markets. "With increased competition, the need to reach our consumers through heavier, more frequent advertising is paramount," Walgreen said. "Market penetration makes strong, high-impact advertising affordable."

See related story, page 42

Expansion highpoint

Fiscal 1986 was the biggest expansion year in Walgreens'

See **Walgreens,** *page 41*

Chain expanding on many fronts

CHICAGO — Walgreen Co. is expanding its business on a number of fronts, including mail-order prescriptions and nursing home service, officers announced at the annual shareholders meeting here Jan. 14.

At the same time, the company is moving rapidly to upgrade store automation and electronic links between stores and headquarters and has begun testing point-of-sale scanning for an eventual rollout chainwide.

The chain was an industry pioneer in the mail-order prescription business and now offers the service through facilities in Phoenix and Orlando, Fla. In addition, Walgreens is enlarging its commitment to the nursing home prescription busi-

See **Expansion,** *page 41*

Eisenberg named to head Peoples' daily operations

Fantle organizing new retail project

By Liz Parks

Sheldon "Bud" Fantle may have retired from Peoples Drug, but he hasn't retired from retailing.

After 40 years of building a small regional chain of drug stores into the industry's seventh highest dollar volume drug chain, Bud Fantle is planning to form a new corporation called Fantle Enterprises Entrepreneurial Excellence.

"I'm proud of the past," Fantle said in an interview he granted *Drug Store News* a few days after announcing his retirement, "but I'm also excited about the future.

"The industry today is a totally different ball game than it used to be. It's a lot more competitive and a lot more challenging.

"I'll still be closely following what happens at Peoples,

David Eisenberg

since I'm a major shareholder, but I also intend to stay in retailing on my own.

"Given the difficulties of this past year, it was Imasco's decision to merge Peoples with its sister division, Shoppers Drug in Toronto.

"David Bloom, who was in charge of Shoppers, will now be in charge of the complete drug store division, and I wish

See **Fantle,** *page 41*

Played key role in chain's growth

By Al Heller

ALEXANDRIA, Va. — Industry sources feel that Imasco made the most logical move it could in naming David Eisenberg, 49, to run Peoples day-to-day.

The announcement came shortly after Peoples chairman Sheldon "Bud" Fantle retired, and the giant Canadian parent named Shoppers Drug Mart chairman David Bloom to head the Imasco Drug Retailing Group, a new joint Shoppers/Peoples entity.

Eisenberg, now senior executive vp and coo at Peoples, is the younger half of the duo that made Peoples a major force over the past decade and grew the chain to 851 stores and $1.8 billion annual sales (Canadian).

He is credited with sharing and executing Fantle's vision,

See **Peoples,** *page 41*

Albertson's Maxx opening a hit

BOISE, Idaho — Albertson's first deep discount drug store, called Maxx, scored a sizable hit here in its first few weeks of operation, an officer for the Boise-based supermarket chain said.

"We're very pleased with the results so far, but we're going to watch its performance at least through the summer before we decide whether to roll it into other markets," said Gary Michael, Albertson's vice chairman and cfo. "It's a very new type of store format for us."

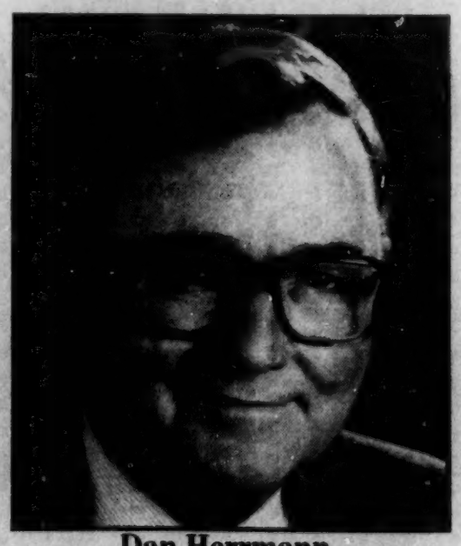
Albertson's held a grand opening for Maxx Dec. 10, building interest in the store through a series of TV and radio spots that are still running. Maxx's preopening ads and low prices on food and drug merchandise were enough to draw "huge crowds" to the grand opening, according to a local market observer, and to sustain the high sales pitch in the first month-and-a-half of business.

"They've really picked up significant amounts of business here, and there's no doubt they're pulling some of the market away from other retailers, including the Fred Meyer across the street," said Jan Friend, business editor for the *Idaho Statesman* in Boise. "I would suspect they're even taking some business from the two Albertson's combo stores in town."

Boise has been the scene of a heated battle for market share among supermarket retailers, Friend added, with heavy price-cutting among competitors in recent months.

See **Maxx,** *page 41*

Three key Fay's execs resign, startling industry



Dan Herrmann

LIVERPOOL, N.Y. — Fay's chairman Henry Panasci Jr. accepted the resignations of three top officers, including president and coo Daniel Herrmann, in a move that startled the industry.

Panasci said that Peter Rhodes, executive vp and cfo, and Bruce Berg, vp-store operations, also tendered resignations, which were announced after Fay's Jan. 14 quarterly board meeting.

The actions wipe out top management personnel at a time when the 150-store drug chain is wrestling to reverse five quarters of depressed earnings.

Panasci said he will assume Herrmann's duties and replace Rhodes "as quickly as possible."

He told *Drug Store News* the resignations had been discussed "for some time," and are the result of "a mutual understanding amongst us. We agreed it would be in the best interest of all if we part ways."

See **Fay's,** *page 41*

Peter Rhodes

SDM upgrades more units to POS scanning

TORONTO — Shoppers Drug Mart, Canada's largest retail drug company, is upgrading its newest point-of-sale cash registers to scanning in select Shoppers stores.

Shoppers, which first began to test scanning in March 1985, now has Datachecker scanning cash registers in three of its traditional franchised Shoppers Drug Mart stores, as well as in eight of its nine corporately owned Howie's deep discount drug stores.

Earl Biderman, Shoppers vp-management information systems, says the company's plan is to put scanners into at least 11 more Shoppers during the next 12 months and to install them in all new and existing Howie's.

At the end of fiscal 1988, Shoppers hopes to have a total of 16 Howie's in operation.

Datachecker system

There is no plan yet to put scanners into all 550 Shoppers Drug stores, but Biderman says Shoppers is gradually replacing its old manual cash registers with the Datachecker series 2000 system.

The 2200 base model in the series 2000 system gives Shoppers "the option of upgrading economically to scanning wherever we feel it is needed," Biderman said.

Currently, about 110 Shoppers have the 2100 model, which will now be upgraded to the 2200. Biderman said Shoppers will continue to upgrade to the 2200 at the rate of about 90 stores a year, including installations in new stores.

In the Shoppers stores, the information gathered by the scanners is being fed into and processed by the store's own pharmacy computer.

Biderman said that in the three test stores that have been using the reports generated by the scanners and computer, the savings in inventory management have been "significant."

Cites inventory control success

One franchisee was able to reduce his inventory by 10%, he said. "By eliminating slow-turning items and by developing a planogram that gave proportionate space to the better turning items," Biderman said, he was able to clear an additional 24 running feet of merchandising space.

Effect in one store

"He added a new 16-ft. bar soap department and an 8-ft. trial and travel section, and between them, these two departments added another $75,000 to his store's annual volume." Biderman said that total store volume is up greater than 10% in the test stores.

Biderman said that in addition to contributing to the creation of a data base that has improved in-store merchandising allocations, the scanners also "show promise for helping us improve corporate merchandising and promotional strategies."

Shoppers is also "actively working on plans for the selective elimination of individual unit price marking in the scanner stores," he said.

Pay for itself

In the long run, Biderman continued, the system will pay for itself by providing a more accurate pricing system, better product movement at the individual item level, and quicker and better feedback on promotional sell-throughs.

How SDM system works

In the Shoppers system, where a typical store has about six registers, the scanning cash registers are tied through a personal computer to the individual store's pharmacy computer.

The information gathered by the scanners is then processed by the in-store pharmacy computer, which also generates the cashier's and inventory reports and handles price look-up.

In the Howie's Deep Discount Drug stores, where there are generally at least nine registers, the scanners are currently limited to tracking cashier productivity, gathering movement data and insuring pricing accuracy.

The front-end scanners in the Howie's stores use an in-store personal computer for price look-up. Earl Biderman, Shoppers vp-MIS, says future in-store information processing will ultimately parallel the systems in the Shoppers stores.

Right now some 180 Shoppers have pharmacy computers, compared to just two of the eight Howie's, but Biderman says all stores should have pharmacy computers "within the next three years."

Shoppers is also using slot scanners at the front-end checkouts, while hand-held scanners are being installed at the registers in service departments like pharmacy and cosmetics.

NEWS IN BRIEF

Consortium set to buy Fisher Foods

ROCKY RIVER, Ohio — American Financial Corp. has agreed to sell its 44% controlling interest in Fisher Foods to a consortium of Cleveland-area companies for $20.6 million, or $13.75 a share. The sale of Fisher, which operates 64 supermarkets, food/drug combos and deep discount drug stores in northern Ohio, is subject to regulatory approval and should be completed in 30 to 60 days, according to the company.

Cincinnati-based American Financial announced Jan. 12 its intention to sell its 1.5 million shares of Fisher stock to American Seaway Foods, a wholesale firm based in Bedford Heights, Ohio, and Stop and Shop Companies, a group of Cleveland-area supermarket companies supplied by Seaway that operate under a common umbrella for buying and advertising purposes. The sale involves 56 Fazio's supermarkets, six Carl's Food and Drug Warehouse stores and two Jax off-price drug stores.

May's Drug restructures for growth

TULSA, Okla. — May's Drug, Oklahoma's largest family-owned chain, has completed a major reorganization to position it for growth, according to May's president Gerald Heller.

The restructure splits operations into two divisions: one will oversee the conventional drug stores, of under 10,000 sq. ft.; the other—the Drug Warehouse Division—is responsible for May's deep discount and superdrug stores, in the 15,000-sq.-ft. range.

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Vol. 9, No. 3 February 2, 1987

Lawton's adds POS cautiously

HALIFAX, Nova Scotia — Lawton's is investing about $20,000 per store to expand its three-store test of electronic point-of-sale into two more stores this month.

The 55-store, $75 million (annual sales, Canadian) chain has stores stretched across 1,000 miles from here to Newfoundland. Its store managers buy on their own, and 90% of merchandise that Lawton's sells is direct-store-delivered.

That makes the POS system a tool for store managers rather than headquarters. The chain's path is deliberately cautious and cost-efficient.

'Keep it simple'

EPOS is already in some of Lawton's highest volume stores, providing price look-up on 100 of the fastest moving health & beauty aids and tobacco sku's out of 7,000-8,000 total sku's in each store. President Donald Kyte is considering a product rotation every 90 days to elicit performance data on more sku's. The system has limited price look-up capacity, but to Kyte that's a lesser evil than "overcomplicating the business. We sometimes forget we're retailers. We're dealing with clerks. We want to keep it simple," he said.

Moreover, Kyte noted it costs $13,000 to $14,000 to equip a store with electronic cash registers. "For about $7,000 more, we get merchandising data without changing our procedures," Kyte told *Drug Store News*.

"Why buy a Cadillac when we need a Ford," said Ron Smith, vp-administration and accounting. He added that cosmetics and paper goods such as diapers and towels, which each account for about 8% of sales, would probably be next to go on look-up.

Lawton's hasn't decided which of two systems that it's testing it may eventually roll out. It has decided, however, to create a system that doesn't interface with pharmacy computers it has now in 25 high-volume stores and will place in five or six more this year.

Rx computer system

A store manager who wants a complete look at his store's performance will have to view data separately from the Rx computer and a master register at the front end. Nor can Lawton's have a central database of its pharmacy patients that would allow electronic prescription transfers from store to store; Canadian law prevents that, Smith said.

Kyte said its Rx system generates gross profits data by day and by script. Pharmacy accounts for 30% of store volume on an average of more than 100 scripts daily. Lawton's top store fills 200 prescriptions a day, Smith said.

New position

Lawton's moves into technology are just one end of chainwide efforts to grow sales, profits and market share. The chain has created a new post of vp-merchandising and advertising, which reports directly to Kyte.

Robin Rae, 39, fills that spot. He was formerly assistant general manager at Value Drug Mart Associates in Calgary, Alberta, where he was responsible for marketing, merchandising, advertising and retail operations. He also served in management at Skaggs and Gibson's, both in Texas.

"We need a concentrated effort there," Smith said. "Fresh ideas and a gut feel for merchandising are important."

Smith hinted that Lawton's is considering expanded imports and giftware efforts as a way to raise margins, appeal more broadly to customers and win back some share lost to "grocers who are selling more greeting cards, magazines and cosmetics."

Kroger targets 2nd 'Welcome' market

RICHMOND — Kroger has targeted two sites here as a second market for testing its Welcome superwarehouse store format, according to a company source.

It has bought leases on two sites where it will open the 100,000-sq.-ft. stores in early and mid-1988. This spring, the Welcome Inc. subsidiary that is developing the format will launch the first store in Greenville, S.C.

The markets are attractive because they have strong population bases and economic growth and because Kroger has no traditional stores there, where sales could be hurt. Typical warehouse stores draw from 15 to 20 miles out.

An amalgam of features from several large store formats, the Welcome units will highlight pharmacies and H&BA sections of 8,000 to 9,000 sq. ft., with deep discount pricing.

The spokesman said the success of these units will determine whether the format is developed further and becomes a part of the Kroger store development strategy.

MERCHANDISING TRENDS

Outlook bright for sun care seasonals

High-SPF tan lotions, blocks, accelerators seen as growth leaders

NEW YORK — Drug store retailers are gearing up for a strong sun care season this year.

The entire category will probably increase between 6% and 8% in 1987, industry sources say. Certain growth segments, such as sun protectors or blocks, sun tanning lotions with high SPFs and tan accelerators, are predicted to grow at double-digit rates.

An exact dollar volume for the category is difficult to come by, because market research companies tend to define sun care in different ways. Charles H. Kline Co. in Fairfield, N.J., for instance, includes department store sales and after-sun care moisturizer and first aid cream sales in their estimates, so that, if one uses their figures, the category was probably about $367 million in 1986 and could reach nearly $400 million in 1987.

However, A. C. Nielsen, which tracks the category basically through mass market retail outlets—food, drug and discount stores—and excludes moisturizers and first aid sun care products like Solarcaine from its estimates, says the category will reach about $250 million in sales in 1987, compared with about $235 million in 1986.

Nielsen and Charles Kline estimates agree, however, that for the past five years, the total category has been growing at between 6% and 8% a year.

If the after-sun moisturizers and the burn care or burn relief products are excluded from the category, as Nielsen and most of the major mass market manufacturers do, then sun care primarily falls into two general segments: tanning lotions and sun protectors.

Plough, which controls about 35% of the sun care market, further breaks down the tanning segment into two main categories: general tanning for "sun active" consumers who want to "tan with protection," and dark tanning for "sun worshippers" who want a quick dark tan and are relatively indifferent to protection.

These two tanning segments, Plough says, accounted for about 72% of the market in 1986. The protection segment, including products like Shade, Sundown and PreSun, which are designed to block as much of the sun's rays as possible and prevent tanning, accounted for about 25% of category sales. A small segment called tanning without sun accounted for the rest of sales, or approximately 3%.

Major segments in suntan category

Tanning segments	% Market share per segment	Consumer profile
Tan with protection	48.3%	Sun-active people with outdoors orientation; age 28 and younger; enjoy sun but as background to other activities.
Dark tanning	24.1	Sun worshippers; see sun as an instrument for basting up a beautiful tan.
Sun protection	24.3	Age 25 and older; concerned about sun and the potential harmful effects of its rays, but not ready to avoid sun altogether;looking for protection for self and family; no interest in tanning.
Tan without sun	3.3	Sun worshippers with access to spas or health clubs.

Source: Manufacturer estimates based on May June 1986 A. C. Nielsen audits

Growth prospects

The growth segments in the category are the high SPFs in both the tanning lotions and the sun protector segments and the new tan accelerator segment that Plough introduced last year under its Coppertone and Tropical Blend brands.

Charles Kline says sales in the high SPF segments increased 16% in the past two years, while sales in SPFs of five and below were up about 3%.

Westwood, which only has a protection line, PreSun, estimates the segment's growth at 21% in 1986 and says it expects the segment to do just as well, if not better, in 1987.

Plough's marketing department thinks the protection segment should climb from 25% of total sales now to 30% of total category sales within three years. They say the segment has grown at a 15%-plus rate since 1982.

In contrast, Plough says, the general tanning segment—or what they call the segment for "sun active" consumers—has been growing at a steady 6% rate for the past few years. The dark tanning segment, for "sun worshippers," has been growing at a fairly constant 3%-5% rate for the past several years, Plough says.

Sales up 15%-20%

Most retailers say their sales in the total sun care category increased between 15% and 20% in 1986, primarily because consumers, concerned about potential sun damage to their skin but still eager to get a tan, were experimenting with various products. And the season for sun care products seems to be lengthening, as more consumers take winter "sun" vacations or turn to tanning beds in local spas or health clubs.

Zinc oxides

The new "fashion" sun care line of colored zinc oxides also gave 1986 sales a jolt. Although some retailers see this segment as a fad that might not hold up in 1987, and others see it as a trend with relevance primarily for stores located in beach resort areas, the zincs had a strong positive impact on overall 1986 sales, and many retailers and manufacturers think they may do just as well in 1987.

One source estimates that the zincs generated about 4% of overall sun tanning sales in 1984, their first year on the market.

Continued on page 20

Vendors create higher SPFs to meet demand

Until last year,the highest SPFs available in the mass market segment were the 15's, the 18's and occasionally a 20. But late in the season, Plough introduced a 23 SPF for its Shade sun protector brand, and Tanning Research Labs introduced a 22 for their Hawaiian Tropic dark tanning lotion.

Sell-throughs were excellent, and this season many of the major manufacturers, convinced that this is the category's strongest growth segment, are coming out with higher SPFs.

Eclipse Labs of Greenwich, Conn., former Faberge president Steve Manenti's new company, will have the highest SPF in the total sunscreen market with their new 35 SPF Cancer Guard by Eclipse, which will be introduced this season. Manenti recently bought the Eclipse line from Dorsey Labs and is preparing a marketing campaign.

Estee Lauder has a 32 SPF available, but their products are only sold in department stores.

Manenti says Eclipse Labs will only be distributing Cancer Guard, which is being marketed as a cancer preventive, through retail stores with pharmacies.

Westwood Labs will have the next highest SPF on the mass market. They're introducing 29 SPF PreSun. Sea & Ski's line of Block Out sunscreen protectors will also have SPFs in the 20's in both a lotion and a mist spray, plus an SPF of 25 for the Sea & Ski and Block Out cream. Eclipse will have a new 20 SPF aerosol, and Bain de Soleil will introduce its highest SPF, a 23.

Plough plans to drop the 23 SPF on its Super Shade sun protector line to add a 25. The company will introduce a 25 Coppertone sun block lotion as well as a children's line, Water Babies, with a 15 SPF.

At Hawaiian Tropic, their new waterproof formula for Baby Faces & Tender Places will have a 22 SPF.

Johnson & Johnson is also launching SPFs of 20 and 24 for their Sundown Sun Block protector line.

Style, discounts vie for chains' eye in sunglasses

Drug store retailers remain split about the fashion side of the sunglass business. Some prefer discounts to high style and shy away from the trendiest looks in order not to get stuck with short-lived fads—which some styles inevitably turn out to be.

Others, such as Eckerd, Dart and Pay 'n Save, appear more willing to take chances on hot looks—leathers, tortoise shell, nylon, punk colors, geometrics and smaller, rounder eye shapes—and display the current colors, shapes and materials that are often shown in the same season by department stores and mass merchants. One factor is the practice by some vendors, to protect retailers, of buying back outdated styles (summer leftovers in October; winter excess about March 1).

These chains, among others, merchandise the 50%-plus margin sunglasses in key traffic locations to grab impulse sales—often at the checkstand and cosmetics.

Places near cosmetics

Some of Dart's newest stores set spinner racks by cosmetics to make it easy for women to complete their total facial look. For less than a $10 ticket, women can coordinate frame colors and shapes with their latest hair color, cuts and makeup.

In parts of Florida, where Eckerd stores dominate and summer seasonals are important items all year round, the chain pursues a dual strategy to merchandise two brands of sunglasses, Foster Grant and Bonneau. Two spinner racks of Foster Grant are set on the main traffic aisle between cosmetics, sun care, skin care and pantyhose and are surrounded by hanging displays of $2.99 soft cases and $2.49 fashion-colored earpiece covers.

Hanging here at children's eye-level are Smurf glasses, meant to entice youngsters waiting for their moms to select lipstick and such.

Front-end racks

At the front end, Eckerd has one Bonneau rack of adult fashion frames, another of Disney license with a dump display within children's reach and a third rack of $12-$14 sports frames—flip-ups and polarized lenses—surrounded by fishing gear.

In all, Eckerd offers a broad display of what is basically an assortment business.

It looks as if Eckerd has tailored its sunglass displays toward family vacationers of all ages—and is capitalizing on its convenient locations to capture a business that it doesn't discount heavily.

Eckerd's current practice reflects what vp-merchandising Doug Bailey told a *Drug Store News* seminar:

Continued on page 20

MERCHANDISING TRENDS

Retailers like PABA-free and hypoallergenic brands for '87

Continued from page 13

In 1986, the zincs were primarily supplied through entrepreneurs newly entering the market or from regional sun care companies. In 1987, Plough has a line in this segment under a licensing arrangement with the California-based owners of the Zinka brand, and Bonne Bell is launching a new line called Zingers.

Although it is usual for manufacturers to guarantee sales in sun care products, that is not automatically the case with the zinc oxide brands.

Plough, for example, is not guaranteeing their Zinka line, but they are providing retailers with customized prepacks that hold conservative amounts of product.

Plough and Bonne Bell are also backing up their lines with extensive consumer advertising. Both the ads and the Bonne Bell blister packs give examples of other occassions in which the primarily teen users can enjoy their zincs, such as painting their faces for a football game or party.

Where shoppers buy sun care items

Drug stores	55%	50%
Food stores	25	28
Mass merchandise/ discount stores	20	22

Source: Manufacturer estimates based on A. C. Nielsen audits

In addition to the zincs and the higher SPFs, the PABA-free and hypoallergenic brands should do well in 1987.

PABA-free/hypoallergenic

Many buyers point out that the hypoallergenic cosmetic skin care lines like Almay and Clarion are doing well in their stores and that the time is right for that trend to carry into sun care.

Plough is pioneering this segment with their new Water Babies by Coppertone.

Water Babies is the first mass-market hypoallergenic PABA-free lotion designed specifically for children.

Plough reasons that mothers will use the product on themselves as well as on their kids, and so will anyone with sensitive skin.

Neutrogena agrees the time is right for a PABA-free lotion. They'll be introducing a PABA-free formula with the launch of their first sunscreen in 1987.

Neutrogena and Eclipse will also be the only sunscreen manufacturers to claim that their lotions protect against infrared rays as well as ultraviolet A(UVA) and ultraviolet B(UVB) rays. Most sunscreens and sun blocks on the market today are designed to filter out the UVB rays that do most of the burning, but many manufacturers are now also emphasizing formulas that give UVA protection as well. Among them: Westwood, with its new PreSun 29 SPF sun block; Plough, with its Shade line and its higher SPF tanning lotions; Sea & Ski for all its newest products; and J&J, with Sundown.

Retailers and manufacturers see the formulas with UVA as well as UVB protection as having a marketing edge, because consumers are more worried today about developing skin cancer or premature aging of skin. Brands that give UVA protection can promise some protection in this area.

Except for Eclipse, most manufacturers haven't reached the point where they're claiming their UVA formulas can prevent skin cancer or aging. But the label on a brand like the new PreSun 29 states that the formula can help to reduce the chance of premature aging and wrinkling of the skin as well as skin cancer caused by exposure to the sun.

Labels on Bain de Soleil's higher SPF protection products state that using these products regularly and frequently can "help reduce the chance of premature aging of the skin due to exposure to the sun." Sea & Ski carries an endorsement from the Skin Cancer Foundation on its Block Out front labels.

Many of the manufacturers with PABA-free formulas, extra moisturizing formulas or high UVA and UVB protection formulas are also detailing their products extensively.

Neutrogena, Eclipse, Plough, Sea & Ski, and Doak with formula 405 all are sampling dermatologists.

Chains discount sunglasses

Continued from page 13

"The challenge for us is to place better orders at the store level and alter the mix based on individual store characteristics."

That means better forecasting of year-round and promotional needs, which would help minimize out-of-stock problems continuing to hinder the industry. Some new racks offer backup inventory, which can help somewhat, but commit the retailer to more inventory dollars.

In the New York area, Austin Drugs president Gary Lefferts has found service merchandisers an acceptable solution. "The profit margin is somewhat down, but service levels are up, so as far as bottom-line profitability is concerned, it seems to be better," he said.

Offers $150 sunglasses

Another way Lefferts is picking up profits is in the sale of $150 sunglasses in some of the affluent Long Island neighborhoods his chain serves. That is true despite the average drug store sunglass ticket being in the $10 range and most of his sales occurring at $8-$15. These are often displayed inside a separate showcase within the service cosmetics area.

Other retailers interviewed felt that 10%-30% discounts in the low-price range was the most prevalent drug store pricing strategy—and that would continue to help encourage multiple sales.

Conscious of brands

While drug stores vie for their share of the market—currently about 20%, according to the Sunglass Association of America—manufacturers are making efforts to introduce brand awareness into the category.

As a few examples: Bausch & Lomb advertises its leather-covered frames in news magazines; Foster Grant sponsors beauty pageants and advertises on MTV to appeal to the under-25 age group, who are estimated to account for about half of sunglass sales; Bonneau persuaded Sylvester Stallone to wear its glasses in his upcoming movie, "Over the Top."

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Chains put faith in old favorite toys under $10

While the talk of the toy industry has been electronic dolls that respond to children's commands, most drug retailers continue to emphasize items under $10.

Although chains in affluent areas will carry pricey toys, most drug stores rely on the old-fashioned favorites that have endured.

Snyder's Drugs and Shoppers Drug Mart are among chains that have recently rolled out planograms emphasizing staple items, such as squirt guns, hula hoops, board games and Play-Doh. Industry observers say that besides being well-suited for impulse or last-minute purchases, such low-ticket items are sought by seasonal buyers trying to offset the high price points of other items on their shopping lists.

Anchors with staples

"Staples is where you make your profits. You can't afford to forget those types of items," said Ed Easton, Kinney Drugs' toy buyer, who anchors the chain's high exposure in holiday promotional goods with steady-selling basics.

Preschool toys, board games, Play-Doh and Colorforms were among staples with strong sell-throughs in Northeastern and Mid-Atlantic chains served by Greenman Brothers, the Farmingdale, N.Y.-based toy jobber, according to Larry Cohen, sales and marketing director.

Staples can account for 60% of the sku assortment that Greenman supplies to chains, including Austin Drugs, Genovese, Osco, Pathmark, Stop & Shop and Douglas Drug.

"The staples were much stronger this year than Christmas-only items," said Snyder's buyer Rick Burns.

Snyder's is completing a rollout of everyday planograms, averaging 36 ft., which it supplies from its warehouse. Burns said standbys such as the board games "Go To The Head of The Class" and "Sorry" were among top sellers in Snyder's holiday product assortment.

He said the chain finished the season with some "aggressive markdowns" on plush toys to sell through its inventory.

No blockbuster

The lack of a blockbuster toy in 1986, combined with the stirrings of a consumer backlash against rising toy prices, boosted the staple segment, said Jodi Levin, communications director, Toy Manufacturers of America.

"For some families, it's a big sacrifice to pay for those high-priced dolls. They need to balance it out under the Christmas tree with Silly Putty and Lego bricks," Levin said.

"Staples is where you make your profits. You can't afford to forget those types of items," said Ed Easton, Kinney Drugs' toy buyer, who anchors the chain's high exposure in holiday promotional goods with steady-selling basics.

"We've had a very strong year in basics," Levin noted, saying strong sellers were construction toys, blocks, Tinker Toys and baby dolls.

In Canada, Shoppers Drug Mart has begun an eight-store test of a 24-ft. planogram, which SDM will cross-merchandise with a baby products department that produces strong sales, according to buyer Bob Buckham.

It will contain price points under $10 with items such as imported squirt guns, hula hoops and jacks, board games, collectible action figures and the Barbie Doll, said Buckham. The section will also em-

Continued on page 26

Drug store share of toy market gains slightly
1980 retail sales
Department stores 20%
Drug stores 3.2%
Catalog showrooms 6%
Toy stores 17%
1985 retail sales
All others 21.6%
Department stores 15%
Catalog showrooms 6%
Drug stores 3.4%
Source: Toy Market Index survey by NPD Group, Port Washington, N.Y.

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MERCHANDISING TRENDS

Unadvertised toys offer high markup potential

Continued from page 25

phasize Fisher-Price and Playskool items to tie in with the baby goods.

"We're not getting into the high-end lines, because our customer is not focused on SDM as a toy store," Buckham noted.

Shuns high tickets

Rite Aid chooses to avoid high-ticket promotional items completely, knowing it can't compete on price with toy stores and still retain a full markup, according to Rite Aid buyer Irv Trionfo. Rite Aid doesn't even carry advertised name brand board games such as "Scrabble" and "Monopoly," to avoid competitive pricing, preferring to carry unadvertised chess, checker, backgammon and other games. It pegs blind-item toys from 69¢ to $1.99.

Trionfo said he was unsatisfied with a test of higher-ticket name brand preschool goods including Playskool and Fisher-Price.

"We want to make a markup on it, at least in the 20% to 30% range. But the toy stores are making 10% to 15%," Trionfo said.

Kerr Drugs backed out of high-price plush this year, after a trial with Teddy Ruxpin in 1986. "We knew everybody would be out there with it this year," noted buyer Bill Carpenter.

Kerr's 56-ft. everyday planogram averages 36% margins, relying on games, books, models and preschool. But perennial winners among Christmas promotional items slipped this Christmas, including Pound Puppies and Cabbage Patch dolls, Kerr said.

Looking for winners

Is there a winner around the corner? Sources say that this year's Toy Fair will feature strong entries from Milton-Bradley in board games, Fisher-Price updates and Hasbro action collectibles.

Most intriguing is another version of Barbie from Mattel—Secrets Barbie—and Ghostbusters, a new action figure line from Kenner at $6 per piece.

Snyder's Drugs' Plymouth, Minn., store features an everyday 36-ft. toy planogram stocked 100% from its warehouse.

Kinney bags profits with high-end toys

Kinney Drugs is one chain that chooses to compete head-on with toy stores and other toy competitors, using the resources of its warehouse system and experience gained from years of strong toy departments.

"We have learned to live and die by our decisions," says Ed Easton, toy buyer for the 29-store chain based in Gouverneur, N.Y.

Since Kinney buys direct, unlike the many chains that rely on wholesalers for their toy goods, it can compete on price with the specialty stores. "You have to be sharp in price, and there's always some profit," Easton noted.

Kinney met its goal this year with an 80% to 85% sell-through, compared with 1985's 81% sell-through. It ran one to four pages of toy promotions in circulars starting in September for the Christmas season.

While Easton swears by the importance of the staple category—with staples allowing for a mid-30's markup and predictably regular sales—Kinney has scored with Teddy Ruxpin and other high-end doll knockoffs. Collectible action figures, including Hasbro's G.I. Joe and Transformers, were also strong performers in 1986, Easton noted.

The high-ticket promotional items, though, are a low-profit category that doesn't allow for a markup beyond 20%.

"People fall into a pattern of thinking the hot licensed products will be the best. But the staples will always be your money-maker," Easton said.

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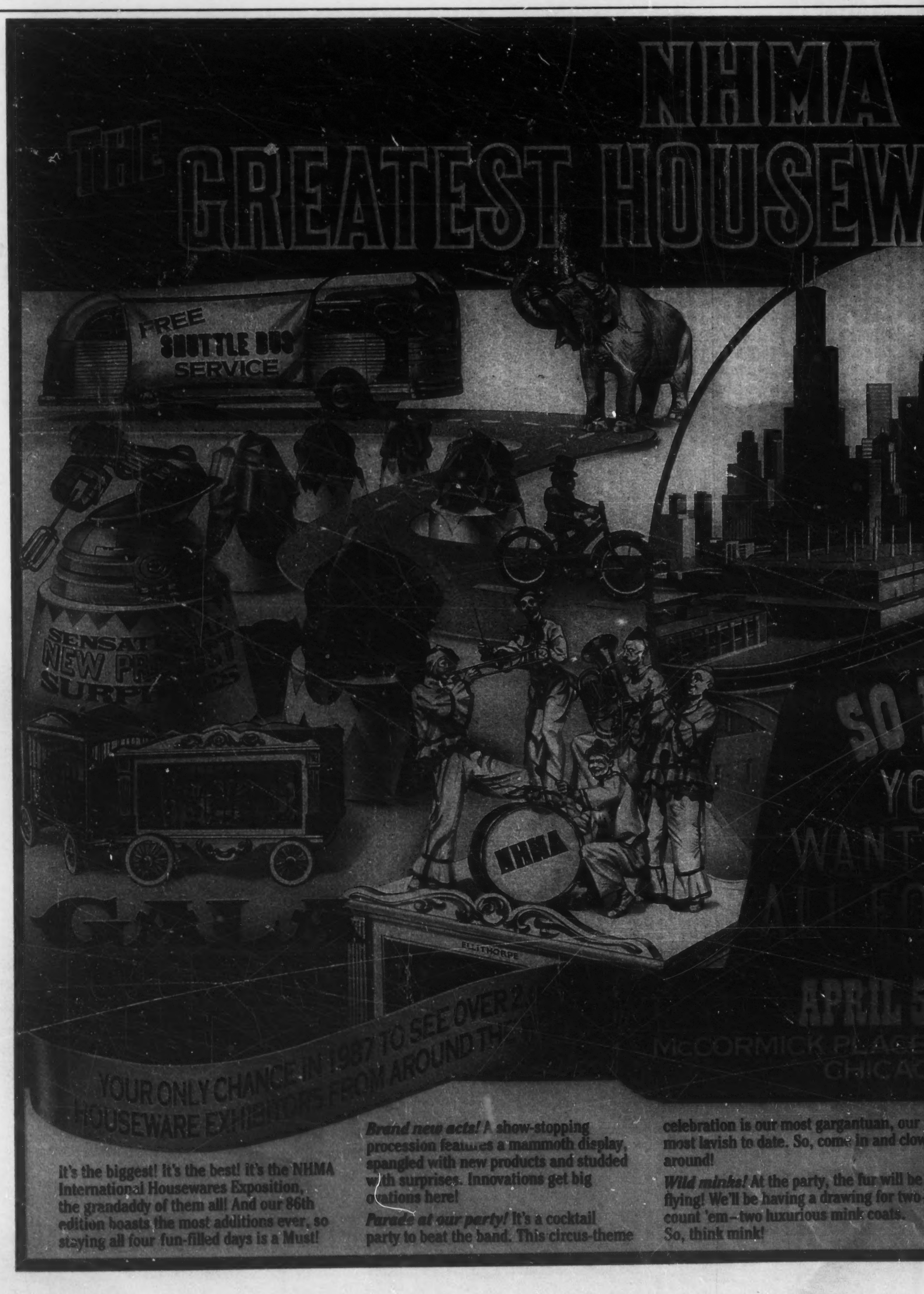
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INSIDE PHARMACY®

Heart drug scripts take sharp turn upward

WASHINGTON — Cardiovascular drugs now account for nearly one out of every six prescriptions dispensed by retail pharmacies in the United States, according to a new drug utilization study released by the Food and Drug Administration.

In addition to being the largest single class of drugs, they are also one of the fastest growing categories, F.D.A.'s figures show.

The total number of cardiovascular drug prescriptions increased in 1985 by 4%—four times the growth rate for all Rxs dispensed—reaching a record 230 million. This represents 15% of all prescriptions during that year. The subcategory of heart drugs showing the biggest jump in popularity is beta/alpha-beta blockers, accounting for 4% of the total number of cardiovascular drug prescriptions in 1985, up 3% from 1984.

While heart drugs enjoy the No. 1 spot on the popularity chart, several other classes of medications have shown marked declines in popularity.

Classes showing decline

For example, prescriptions for contraceptives (almost exclusively oral contraceptives) totaled approximately 50 million in 1985. Growing concern over the safety of oral contraceptives may explain the 3% drop in this category, compared with the previous year.

Another major class of drugs showing a decline in prescriptions is diuretics, in particular thiazides, which accounted for 12% fewer prescriptions in 1985 than the previous year.

On the whole, F.D.A.'s newly released seventh annual drug review indicates that the total number of prescriptions in 1985 rose 1% from the year before, to about 1.55 billion, at a consumer cost of $20.3 billion. The numbers translate into $13.09 per prescription.

Overall drug use figures also show that during a 14-year period beginning in 1971, the size of a prescription (i.e., the average number of capsules, tablets or other units) increased by 29%.

Data for the drug review were taken from three pharmaceutical marketing sources, which included the National Prescriptions Audit, the National Disease and Therapeutic Index and the U.S. Pharmaceutical Market, according to the report's authors.

Leading prescription products in dollar sales include Smith Kline & French's Tagamet and Dyazide, Ayerst's Inderal, Glaxo's Zantac and Syntex's Naprosyn.

Generics face battle

The drug utilization study also tackles the generic vs. brand name issue with figures showing that the often cheaper generic drugs continue to face tough competition from "pioneer" or brand name versions.

See **Study,** *page 34*

Product	Rank by Rxs	Rank by $
Dyazide	1	4
Lanoxin	2	52
Inderal	3	2
Valium	4	6
Tylenol with Codeine	5	36
Amoxil	6	30
Tagamet	7	1
Lasix	8	29
Darvocet-N 100	9	14
Motrin	10	18
Keflex	11	8
Premarin	12	26
Tenormin	13	9
Naprosyn	14	5
Xanax	15	12
Synthroid	16	53
Lopressor	17	11
Theo-Dur	18	28
Aldomet	19	13
Slow-K	20	39
Ativan	21	17
Dilantin Sodium	22	38
E.E.S.	23	60
Feldene	24	7
Zantac	25	3

Maryland MD-dispensing law under fire from F.T.C. staff

WASHINGTON — Federal Trade Commission officials are bringing pressure on Maryland regulators to soft-pedal a new state law designed to restrict sales of prescription drugs by physicians.

In a direct appeal to Maryland's State Board of Medical Examiners, F.T.C. "consumer protection" staffers argued that MD Rx dispensing benefits the public "by enabling consumers to avoid making a separate trip to a pharmacy."

But more importantly, F.T.C. officials maintained, "the competition resulting from dispensing by physicians may enhance the incentive for pharmacists to offer lower prices and additional services to consumers."

See **Dispensing,** *page 36*

Generic birth control pills appearing

For the first time, millions of women who use oral contraceptives will be able to buy generic versions this year.

Rugby Laboratories, soon to be followed by Searle Pharmaceuticals, is distributing generic birth control pills with norethindrone, which went off patent in 1981.

Rugby's generic version of Ortho-Novum 1/35 (norethindrone and ethinyl estradiol) and 1/50 (norethindrone and mestranol), called Genora, is being produced by Syntex General Products. Syntex now markets both products under the brand name Norinyl 1/35 and 1/50 and thus will be competing against itself.

Searle Pharmaceuticals also plans to distribute generic birth control pills, pending approval by the Food and Drug Administration. The generic pill will be manufactured by Watson Labs of Corona, Calif., in a joint venture with Gynex of Des Plaines, Ill. In an unusual arrangement, Searle will carry the liability insurance on the product.

According to Stephen Simes, vice president at Gynex, the liability issue was one of the major reasons for the collaboration. With the recent liability insurance crisis, Simes noted that there is "no insurance available." Watson and Gynex are seeking approval for a total of seven generic birth control products.

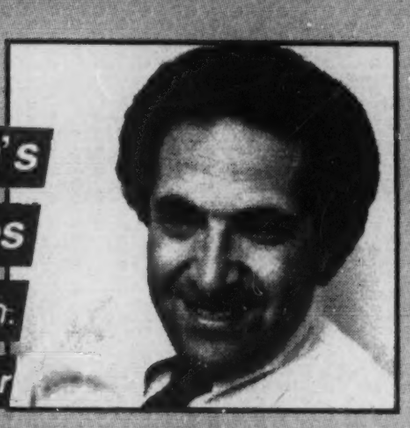
In the Syntex-Rugby venture, Syntex, the manufacturer, will be assuming liability.

See **Pills,** *page 38*

Professional ethics paramount for pharmacists

Cohen's Capsules

Harold Cohen, R.Ph.
Pharmaceutical Editor



Ethics is something most people have to wrestle with at one time or another, whatever their career. But for health professionals, dealing with ethics seems to be a daily concern.

Pharmacists in particular face ethical situations probably more than most health care professionals. In fact, they are hit with a double dose of ethical rights and wrongs. First, they have to be aware of business ethics and then tackle professional ethics. Or should it be the other way around?

To my way of thinking, there is no question that professional ethics should always come before business ethics. While there are many scenarios in retail pharmacy that come to mind where ethical decisions have to be made, one stands out: script renewals, especially for abused substances.

There isn't a retail pharmacist who hasn't been faced with a doctor who writes *prn* in the refill box, with complete disregard for the patient taking the medication. (For those of you who are not pharmacists, *prn* is an abbreviation of the Latin for "refill as needed.") Generally, the law in most states is that *prn* prescription can only be renewed for one year; then permission or a new prescription must be obtained from the physician. In the case of abused or "controlled" substances like narcotics and sedatives, restrictions are usually for six months. But for a patient addicted or dependent on those drugs, even six months is too long.

In some cases, pharmacists are faced with selling prescriptions to customers who they believe are addicted or dependent on these drugs. The ethical question is, do I continue to sell them their drugs, or refuse? After all, selling prescriptions helps cash flow. In reality, the decision is not an easy one.

It's easy to rationalize that, after all, the doctor is the one who really should take up the responsibility for the patient's drug abuse problem; he or she wrote the prescription. But it's not that simple.

I believe it is our duty to investigate what appears to be obvious drug abuses. You know what I mean. The patient who comes in with the prescription refill way ahead of the doctor's prescribing schedule and says he lost his pills or dropped some down the sink.

For those of you who have computer systems, I believe it is your job to review drug utilization and set parameters that you can live with professionally. It's interesting how "ethical" some pharmacists become when the prescription is not for a cash customer but being paid by a third party like the Medicaid program. The rationale I've heard from too many pharmacists is, "I'm not getting paid enough to keep up this guy's habit."

If we want to be treated like professionals, we have to act like professionals, even if it means a loss of business.

INSIDE PHARMACY

Study: Generics still in tough competition with brands

Generic vs. brand prescriptions for the top 10 products of 1985

Top brand name	Generic name	% Rx filled with generic 1983	1985
Dyazide	Hydrochlorothiazide/triamterene	100%	90%
Lanoxin (Lanoxicaps)	Digoxin	99	99
Inderal (Inderal LA)	Propranolol	100	95
Valium (Valrelease)	Diazepam	100	96
Tylenol with Codeine	Acetaminophen/codeine	69	59
Amoxil	Amoxicillin	62	63
Tagamet	Cimetidine	100	100
Lasix	Furosemide	80	64
Darvocet-N 100 (Darvocet-N 50)	Propoxyphene/acetaminophen	89	89
Motrin	Ibuprofen	88	64
Total 10 drugs/drug combinations		88	80

Source: F.D.A. *Drug Utilization in the U.S.*, National Prescription Audit

Continued from page 33

According to the study, 98 million new prescriptions were filled with generics in 1985, representing 13% of all new prescriptions. However, although new prescriptions for generics are up one percentage point from 1984, the proportion is down from 1982, when generics accounted for 14% of all new prescriptions.

Brands holding share

The study also shows that many of the top brand name drugs have not shown any significant decrease in market share in the face of lower-priced generic competitors.

For example, F.D.A. statistics indicate that Smith Kline & French's Dyazide continued to hold 90% of the hydrochlorothiazide/triamterene market in 1985 (down only 10 percentage points from 1983); Beecham's Amoxil maintained a 63% share (up from 62% in 1983); and Roche's Valium dominated the diazepam market with a 96% share in 1985 (from 100% in '83).

However, there are several top brand name drugs that have lost a portion of their market share from the introduction of generic versions. These include Hoechst-Roussel's Lasix, which dropped to 64% of the furosemide market from a former 80% share in 1983, and Upjohn's Motrin, which fell from 88% of prescription ibuprofen sales in '83 to 64% in '85.

Other highlights

The study also highlights three separate categories of drugs—oral antiarrhythmics, benzodiazephines and oral hypoglycemics. Major findings show that:

- Oral antiarrhythmic drugs represented only 1% of total Rx sales in 1985, but the number of prescriptions dispensed for these drugs increased by 83% from 1976 to 1985.
- Retail pharmacies dispensed 81 million benzodiazephine Rxs in 1985, with diazepam ranking as the most popular benzodiazephine.
- Through the 1980's, oral hypoglycemics "have experienced a resurgence in popularity," and accounted for 20.3 million prescriptions (up from a low of approximately 14 million in 1979), representing 1% of all Rxs dispensed in 1985.

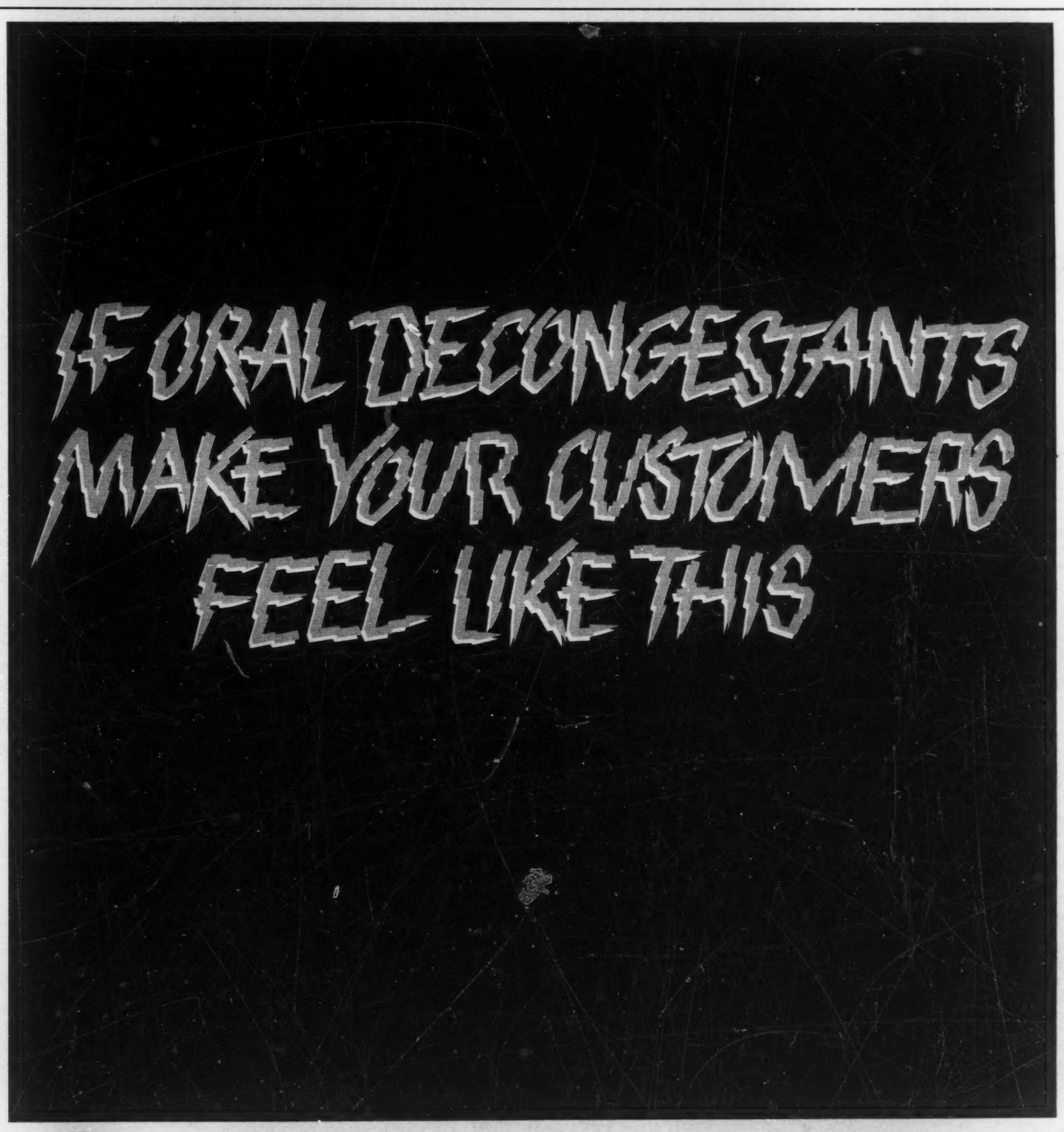
Rule proposed on Medicaid provider pay

WASHINGTON — The Department of Health and Human Services has proposed a rule to halt Federal Medicaid payments to pharmacists and other providers under criminal investigation.

The proposed rule is designed to encourage state Medicaid agencies to withhold program payments to a provider, without granting an opportunity for an administrative review, upon receipt of reliable evidence relating to fraud, willful misrepresentation or criminal investigation.

According to the proposal, even though the payments are to be withheld, the provider would continue to be credited for services furnished during that time.

The new guidelines are intended, H.H.S. explained, to make Federal Medicaid policy consistent with existing Medicare policy.



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DRUG STORE NEWS

Vol. 9/No. 4 **Serving chains, wholesalers and high-volume independents for 57 years.** Published by Lebhar-Friedman Inc. February 16, 1987

Upg… stal… growth

(See special Back to School coverage starting on p. 15.)

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NEWS IN BRIEF

Engle named vp of Bergen Brunswig

ORANGE, Calif. — Phillip Engle, president of Bergen Brunswig's drug company, has been named a vice president of the Bergen Brunswig Corp.

In announcing the appointment, Emil P. Martini, Bergen Brunswig chairman and ceo, said Engle will continue to serve in his drug company post, overseeing its 43 divisions.

Phillip Engle

ACDS to host program at show

CHICAGO — The Associated Chain Drug Stores will host a special product program at this year's Housewares' Show, to celebrate its 61st year in business.

ACDS will show member chains 100 to 150 items it has picked for their top quality, low-cost and traffic-generating potential. The "Super Specials" program will be Monday evening, April 16, at the Conrad Hilton & Towers in Chicago.

"Associated purposely limits the number of items it presents that evening in order to make sure that every item meets our strict criteria," said Ira Shain, president of the 6,000-member association.

Goold takes over Maine Surgical

PORTLAND, Me. — J. E. Goold & Co., the wholesaler, said it has purchased the capital stock of Maine Surgical Co. from the Dead River Co. Maine Surgical markets products to hospitals, nursing homes, veterinarians and physicians in the Northeast.

Goold, a pharmaceuticals and health care products distributor, will operate Maine Surgical and its affiliate company, Atlantic Health Care, as a separate division. Thomas Forst, of MS, will serve as division president, with Dana Dow as vp-sales. The division will be directed by Goold's coo, Peter Bingham, Goold president William Waldron announced.

Perry buys 2 Detroit stores

PONTIAC, Mich. — Perry Drug Stores has bought two drug stores in the Detroit metro area: Carpenter Drugs in Royal Oak and Rite Value Drugs, in Dearborn Heights.

The buys give Perry 212 Midwest drug stores.

Revco sells Private Formulations

ENGLEWOOD CLIFFS, N.J. — Revco said it expects to close in mid-February on the sale of its Private Formulations drug manufacturing subsidiary to Pharmacontrol Corp., based here, after completing negotiations.

Pharmacontrol has managed PF since September and has upgraded the equipment and product line. The company plans to use PF's facilities to launch a patented oral-soluable aspirin in powder and tablet forms this spring.

Cover photo was taken at Austin Drugs, Plainview, N.Y.

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Vol. 9, No. 4 February 16, 1987

D.C. Safeways introduce one-day lens replacement

OAKLAND, Calif. — Safeway is selling soft contact lens replacements in 36 Washington, D.C. division stores, after a successful three-month test in its Denver division, Safeway officials said.

Since the supermarket chain launched the Denver program in 53 Safeway stores with pharmacies on Oct. 1, it has been rolled out into 60 Safeway pharmacies in the 135-store division, in which 62 units have pharmacies, said Treat Barnes, Denver division pharmacy coordinator.

The stores encountered a surge of business after the program was kicked off by announcing it to the local media, which ran news stories, Barnes said. In a typical transaction, a pharmacist fills an order within 24 hours after a customer submits a replacement prescription.

Safeway pharmacists replaced 150 to 160 lenses in the first week for all stores. Against expectations, business picked up from there, with pharmacists now replacing an average of 170-180 lenses a week, Barnes said.

Shopper profile

"The contact lens customer is the ideal customer to be shopping in our stores," said Barnes. The shopper is typically female, 35 years old and an upper-income professional. Once she is grocery shopping, the chain wants to convert her to a prescription customer," Barnes noted.

Barnes said the Denver stores have no retail competitors. Tne lens replacement business was solely in the hands of eye doctors until Safeway entered the market.

Drug chains are finding this young $2 billion market attractive because it calls for no inventory requirement, no shelf space, and typically generates 20%-25% margins.

Revco, for example, now offers lens replacements in about 300 stores, Perry Drug handles the business in its Michigan and Illinois units, and Gray Drug Fair sells them from about 100 stores.

Also, Phar-Mor, the deep discounter, the Pittsburgh-based Giant Eagle, and Sav-On stores sell lenses. Meijers Thrifty Acre this month will roll out the service chainwide after a test in about six units, according to a source.

Average sale $30-$35

Safeway stores in Maryland, Virginia, Washington, D.C., Delaware and West Virginia in the Washington, D.C., division are now selling the lenses at 40%-60% off optician's prices. Product is supplied by AMCLED, a Denver-based lens wholesaler.

Barnes said his average sale is $30 to $35. Safeway offers 24-hour service on lines by major vendors including Bausch and Lomb, Ciba, American Optical and Barnes-Hind.

The lenses are regularly advertised in newspaper circulars, where they're cross merchandised with lens care salines and cleaners, he said.

Pay 'n Save changes exec team

Merchandising plans expected to turn around losses

SEATTLE — Pay 'n Save, struggling to return to the black after an almost $50 million loss in 1986, announced a series of management changes aimed at "providing quicker response time to customer demand," according to the company.

Gerald Nathanson, vice chairman and ceo, said most of the appointments fill newly established positions at the 107-store chain.

They include Ron Fleisher and Elmer DiFilippo, both senior vice presidents reporting directly to Nathanson. Fleisher, a Philadelphia native, will serve as general merchandise manager of hard lines. DiFilippo, formerly vp of advertising and sales promotion for McCrory's, will head Pay 'n Save's marketing effort.

Exec team goals

The company said that the new executives, plus others that were named early this month as part of Nathanson's new team, will "help fine tune the company's import and export system, which will now focus on higher quality goods."

The switch to higher quality import goods is a response to the problems Pay 'n Save encountered last fall in carrying out a new promotional strategy based on the contacts and expertise of chairman William Zimmerman.

Low-end imported and closeout "Zimmerman merchandise" was introduced into the stores, but failed to live up to sales expectations, sources said, because Pay 'n Save's upscale customers were slow to accept the changes. In addition, Pay 'n Save encountered problems with its upgraded 350,000-sq.-ft. Auburn, Wash., distribution center.

In a 13-week third quarter, the company had a new loss of $25.7 million on sales of $170.8 million. For the year, the loss was $49.4 million on sales of $555.1 million.

Nathanson said the fourth quarter loss included more than $11 million in nonrecurring charges. The company said these charges "included inventory writedowns for merchandise not meeting the company's desired standards and costs associated with the restructuring of the company under new leadership."

The company said that despite the loss, it expected that its new merchandising strategy, together with the restructuring efforts, would "strengthen Pay 'n Save and improve its future performance significantly."

Management roster

Other newly appointed executives include:

- Nancy Cacace, a Pay 'n Save employee since 1974, who will serve as vp and executive assistant to Nathanson.
- Ruth Bell, a 10-year retailing veteran, who will work out of the New York office as vp of apparel merchandising.
- Jim Pappas, formerly of McCrory's, who will join Pay 'n Save as director of controlled checkstand merchandising.
- Ron Rouse, previously manager of mechandise analysis and control, who will be director of planning and research.
- Nancy Miller, who has been promoted from store buyer to divisional merchandise manager.

Best Buy to nearly double stores in '87

WEST PALM BEACH, Fla. — Shaking off development problems that have stymied its growth over the past year, Best Buy Drugs is laying plans for a near-doubling of store count by year's end.

Southeast Florida's homegrown drug and liquor store chain will open as many as five new drug stores and four more liquor outlets in side-by-side locations this year, said president and ceo Alan Mirabelle.

Hampered by a slow retail development pace in its four-county market area, Best Buy opened just one new drug store last year, in Green Acre City near Delray Beach. That unit—the chain's 11th drug store—was accompanied by Best Buy's first adjoining liquor outlet.

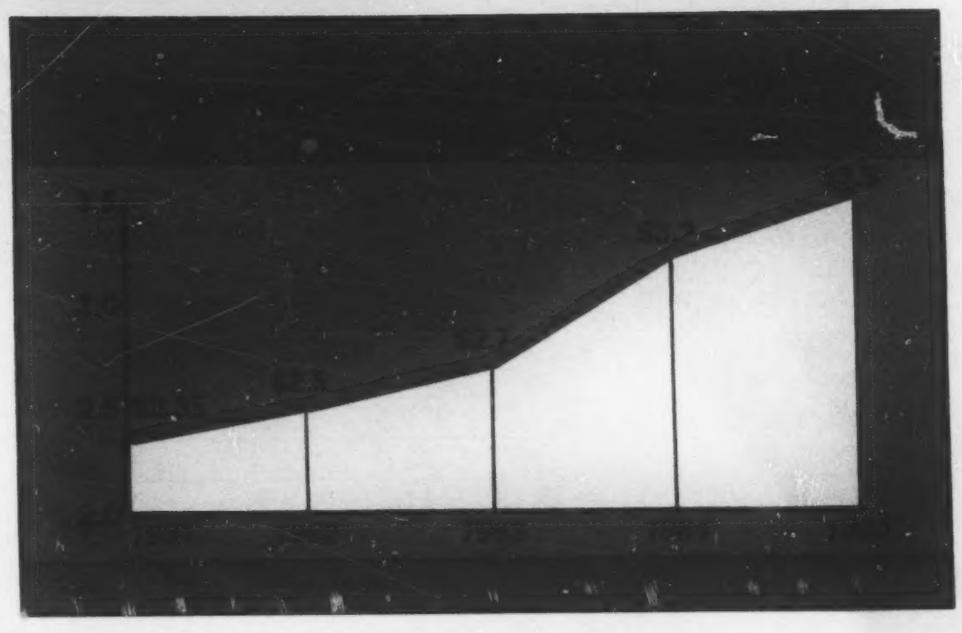
Site approval delays

"There have been a lot of delays in getting sites approved and construction under way for the stores we're developing," Mirabelle told *Drug Store News*. "We have several sites now under construction, however, and we could visualize opening many more stores."

Best Buy operates in the southeast Florida counties of Broward, Palm Beach, Martin and St. Lucie, and has carved out roughly 5% of the drug store market, despite the domination here of such chain drug powerhouses as Walgreens, Jack Eckerd and Rite Aid. Mirabelle, who assumed the top post at Best Buy in 1986 following the retirement of founder Robert Pickett, says the chain will remain in its present market area for the foreseeable future.

Back-to-School Show Report

	Women under age 75 (millions of people)	% of total population	Two-parent families with both working (millions of people)	% of the total number of families
1969	25.7	12.7%	18.3	35.9%
1973	28.9	13.6	20.1	36.9
1977	32.8	14.9	21.0	37.0
1981	37.7	16.4	22.5 (E)	37.2
1984	39.9	16.9	23.3 (E)	37.6
1987 (E)	41.7	17.1	24.5	38.2
1990 (E)	43.0	17.1	25.7	38.8



Retailers devise strategies to pump card sales

Retailers are wondering what to expect next from the greeting card industry, which experienced a flat 1986 sell-through that left pessimism for the industry's near-term prospects.

Although Christmas sales were up moderately from 1985, seasonal card sales overall were soft, confirming the view that the industry has entered a phase of maturity.

So many classes of trade sell cards now that Hallmark, American Greetings and Gibson Greetings—the big three—have emphasized merchandising as never before, to compensate for the loss of new market development as a route to sales growth. After years of successfully rolling out card departments into mass merchandise outlets, the major companies have achieved an 85%-95% penetration. This is one major reason why card sales growth should slow to a walk for the next two to three years, according to E. Gray Glass, an analyst with Kidder, Peabody & Co.

Sales-boosting tactics

Drug chains have attempted to maximize their sales by expanding footage, adopting fixtures that display high-margin cards to best advantage, relocating departments to capture more impulse sales, and experimenting with alternative cards. New strategies paid off in some cases when the chains discovered that sales of cards could be boosted in proportion to their exposure—up to a point.

The card companies will continue emphasizing in-store merchandising—and fiercely compete on price and terms—as they fight for market share in the slow-growth environment, Glass predicts.

"Today, price competition is being used aggressively. We expect this form of competition to intensify," he said.

Glass said a Kidder, Peabody survey showed that a surge in sales in the two weeks prior to Christmas perked up what was, overall, a slow 1986. "We do not currently anticipate any significant improvement in seasonal sales in 1987," he added.

Factors contributing to the industry's lack of growth are an already high per capita card consumption level and growth in average card prices.

Glass believes that positive demographics will be a key factor in returning the industry to a strong growth level in the long term. Moderate 4% to 5% growth over the next two years should normalize to 8% over the next five years, as a result of average growth in the 25- to 54-year-old age group, the growth in the number of working women and the increase in two-income families.

	Sales ($ millions)	Share of total sales
Christmas	2,200	31.7%
Valentine's Day	850	12.3
Easter	100	2.6
Mother's Day	140	2.0
Father's Day	85	1.2
Graduation	80	1.2
Thanksgiving	40	0.5
Halloween	25	0.4
St. Patrick's Day	16	0.2
Grandparent's Day	10	0.1
Chanukah	9	0.1
Other seasons	5	0.1
Everyday greeting cards	3,300	47.6

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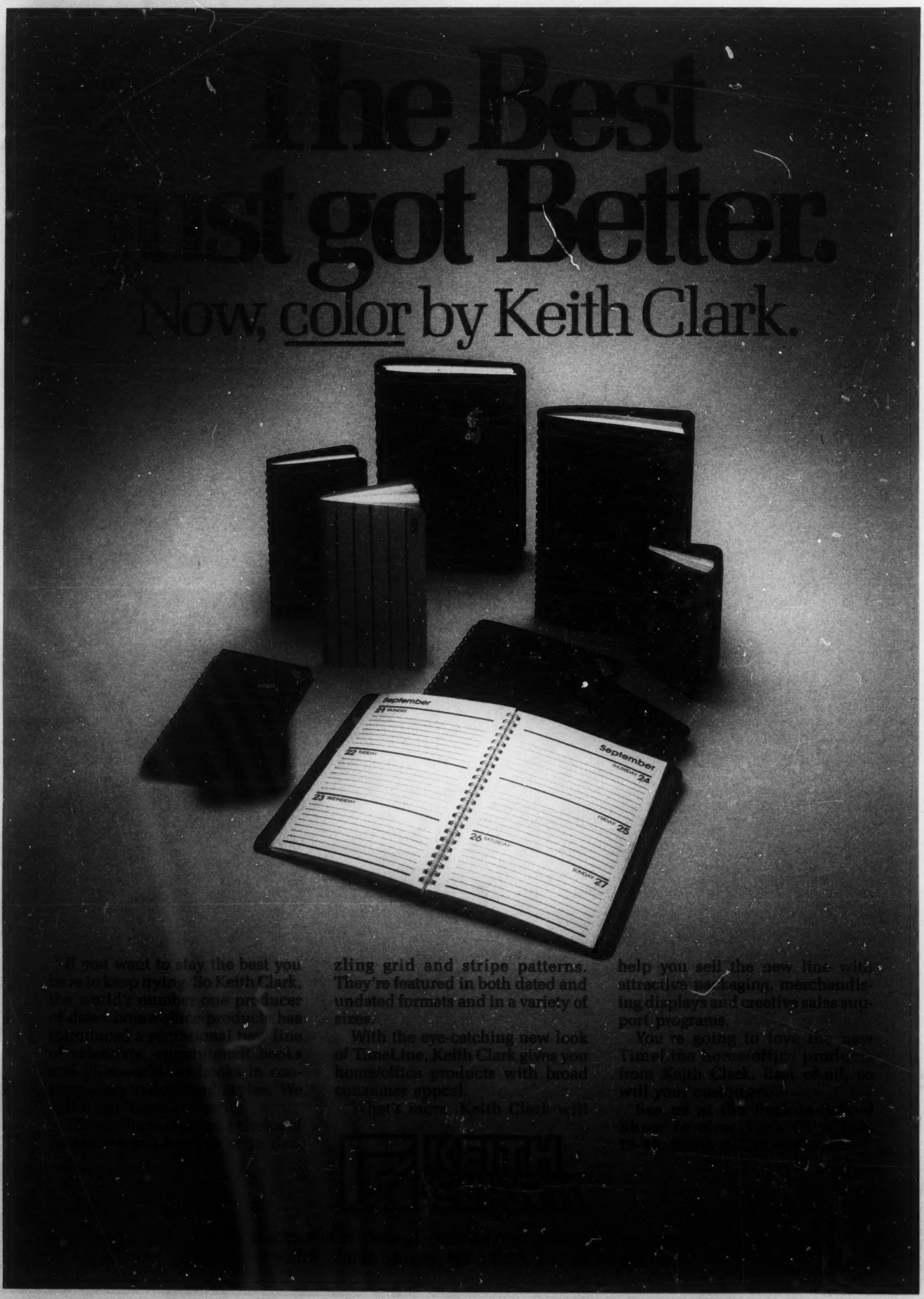
TRENDS

Back-to-School Show Report

	Units shipped 1984	Units shipped 1985	% change
Mechanical pencils	147.8	162.6	+10%
Roller pens	196.9	236.3	+19
Porous point pens	579.7	569.4	– 1
Markers and highlighters	301.3	322.4	+ 7
Ball point pens	2,192.0	2,216.7	+ 2
Fountain pens	11.5	11.2	– 2

At Eckerd, Indian Rocks Beach, Fla., writing instruments are direct lit and pegged and displayed by product type rather than brand family. Stationery is in front left quarter of store, bordering race track.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Mechanical pens, pencils fuel growth

Sales of mechanical pens, pencils and roller pens are pacing writing instrument sales growth in chain drug stores.

Stores' sales reflected the industry growth of 5%-6%, in 1986, when manufacturers' sales of mechanical writing and marking instruments topped the $1 billion barrier, according to estimates by the Writing Instrument Manufacturers Association.

Up from 1985's $970 million, the sales were fueled by growth in the categories of mechanical pencils, porous point soft-tip pens, roller pens and highlighters, according to WIMA executive vp Frank King.

Mechanicals a leader

Chain buyers said mechanical pencils were a leading segment this year "especially the 5mm," noted Begley buyer Chuck Reeves.

"Scripto has been about the best, since it's the lowest priced," said Paul Chabot, a buyer at Douglas Drug, the 11-store North Providence, R.I., chain.

Buyers said that Bic's 5-pack of disposable mechanical pencils was a strong item, as were upgraded mechanical pencils, such as Pentel of America's Quicker Clicker.

Multipacks, including Bic and Paper Mates' Write Bros., continued to have good turns, with the Write Bros. 10-pack typically retailing at $1.49 to $1.59.

Looking at rollers

Since buyers want to maximize their use of space in the high-potential school and office planograms to ensure that every peg is holding its own, they are taking a hard look at the roller pen segment, where vendors and sku's have proliferated.

Several buyers said that erasable pens seem to have peaked. Page Drug is reducing exposure there as a result. "They've pretty much seen their heyday," noted Page buyer Steve Standifer.

Customer loyalty! Retailers report 90% repeat purchase rate

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TRENDS

Back-to-School Show Report

Hot fashion colors spur growth in back-to-school, home-office

	Sales	Share
Apparel and accessories	$18.7 billion	34.5%
Toys/games	8.3	15.5
Gifts/novelties	4.9	9.0
Home furnishings/housewares	4.3	8.0
Foods/beverages	4.1	7.0
Health & beauty aids	2.7	5.0
Computer/video software	2.4	4.5
Sporting goods	1.6	3.0
Other	1.2	2.0
Total	$54.3	100.0

Drug store stationery merchants report that the explosion of color in back-to-school/home office is stealing thunder from the growth of licensed products.

They sense that consumers, in large part, are now opting for fine fashion shades and primary colors—as they upgrade the quality of stationery items they use and make personal statements about themselves.

Licensed characters are on many quality student products, too. And Stuart Hall is breaking ground with a Pierre Cardin line of legal pads, steno notebooks and memo pads—believed to be the first such licensed products for adults this year.

Still significant

While growth of colors is outpacing licensing as a trend, buyers nationwide told *Drug Store News*, licensed growth is still significant.

According to *The Licensing Letter*, retail sales of licensed publishing/stationery products grew to $6.1 billion in 1986. That represents 11.5% of total retail licensed sales in the United States, which grew 8% last year to $54.3 billion.

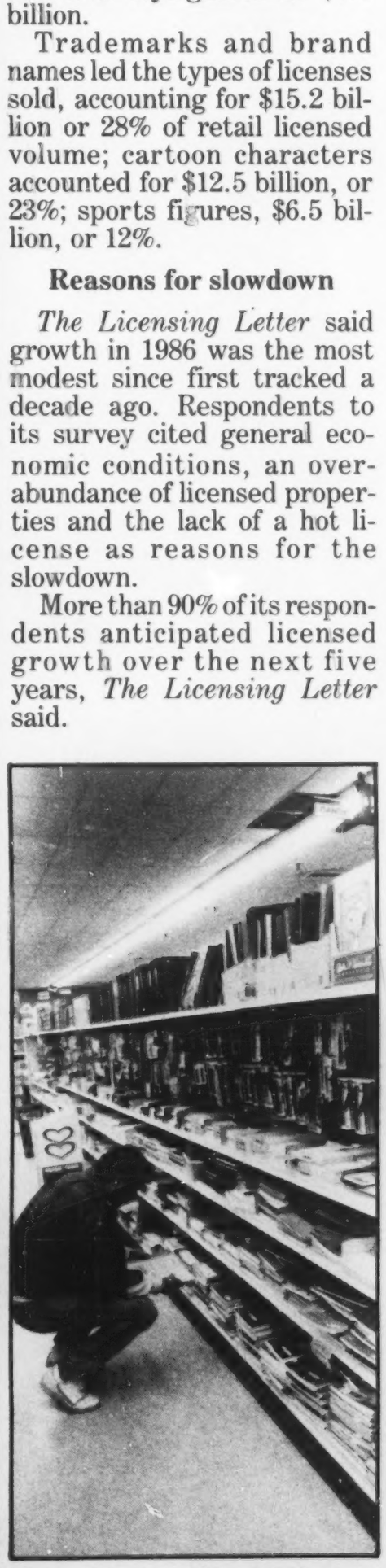
The publishing/stationery segment was the third most active merchandising category for licensing, behind apparel and accessories at $18.7 billion and toys/games at $8.3 billion.

Trademarks and brand names led the types of licenses sold, accounting for $15.2 billion or 28% of retail licensed volume; cartoon characters accounted for $12.5 billion, or 23%; sports figures, $6.5 billion, or 12%.

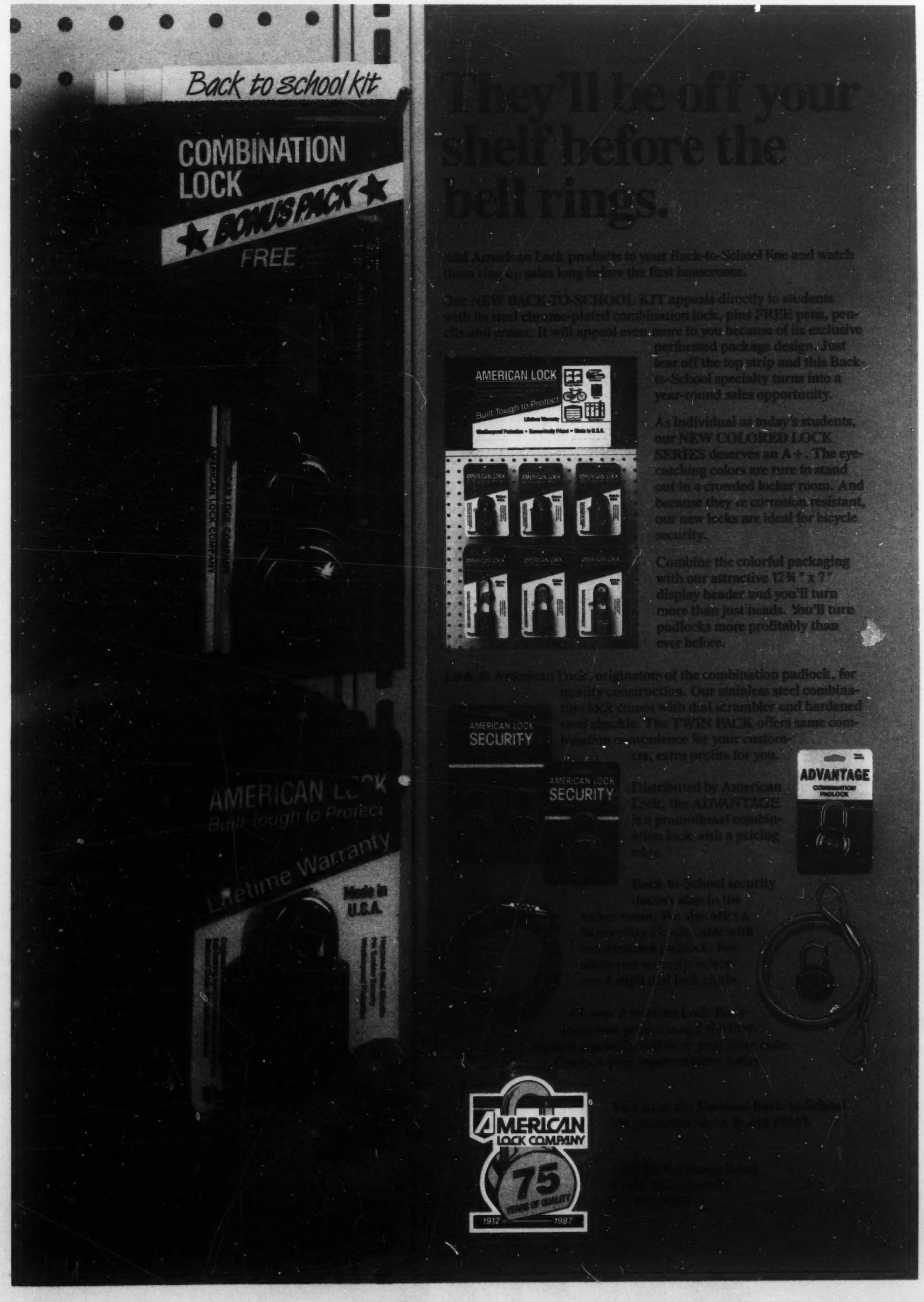
Reasons for slowdown

The Licensing Letter said growth in 1986 was the most modest since first tracked a decade ago. Respondents to its survey cited general economic conditions, an overabundance of licensed properties and the lack of a hot license as reasons for the slowdown.

More than 90% of its respondents anticipated licensed growth over the next five years, *The Licensing Letter* said.



Licensed character stationery items get full front facings on top shelf of heavily sku'd B-T-S/home office/tax time aisle at Austin Drugs, Plainview, N.Y., to prompt impulse sales.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Look to American Lock, originators of the combination padlock, for quality construction. Our stainless steel combination lock comes with dial scrambler and hardened steel shackle. The TWIN PACK offers same combination convenience for your customers, extra profits for you.
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Florida Prescribing Law

INSIDE PHARMACY

Most Florida pharmacists not prescribing

By Harold Cohen

Some say the Florida prescribing law, under a year old, is the best thing to hit the profession; others think that it already could use a major overhaul.

According to an exclusive Drug Store News *survey, Florida pharmacists have been less than enthusiastic about the new law. In fact, the majority have decided not to take the prescribing plunge at all. What do they say is the major reason for their lack of participation? Liability.*

While it is easy for pharmacists to use liability as the major reason for not prescribing, interviews conducted during a week of travel in Florida uncovered another story.

And that is that the lack of time needed to consult with customers on prescribed drugs, plus a weak formulary, overshadow their liability fears. Pharmacists, particularly in busy script stores, said that although liability is a worry, they are far more concerned about getting backed up on their work.

Some said that if the law is to succeed, the formulary of drugs allowed to be prescribed has to have more bite.

Even among those pharmacists who were prescribing, virtually none were advertising the service—with the exception of a small blurb in a chain circular. It's as though they were saying: "Yes, I'll prescribe if the need arises, but I'm not going to go out looking for it."

All the interviewed pharmacists agreed that the state had done a poor job of explaining the law to the consumer. Confusion among customers, especially within the first few months of the law, ran high. "All they wanted were drugs that were not on the formulary, like antibiotics," said one pharmacist.

But through all the negativism, the law did result in some positive attitudes.

Several pharmacists said that because consumers thought pharmacists could prescribe drugs not listed in the formulary, they came into the store with ailments that might have gone untreated. It gave pharmacists the opportunity to "convince" these individuals to see a physician. Some said the physicians actually benefited from the law because of the unexpected referrals.

Another ripple effect was that the law, as humble as it may be in the eyes of some pharmacists, lifted the spirits of pharmacists by elevating their professionalism in the eyes of the average consumer.

While not perfect, most pharmacists in Florida agree, the law opens doors of opportunity for those aggressive enough to walk through. How pharmacists in Florida handle that opportunity will be watched closely by several states with similar prescribing laws waiting in the wings.

Survey finds liability fears, time, company policy key factors

Most Florida pharmacists have given the thumbs-down sign to a new law that allows them to prescribe a limited number of prescription drugs without a physician's authorization.

According to an exclusive research study commissioned by *Drug Store News/Inside Pharmacy*, chain and independent pharmacists in the Sunshine State have overwhelmingly rejected the opportunity to prescribe drugs under the nearly one-year-old Florida Pharmacist Law.

The report shows that 84% of the more than 200 pharmacists surveyed are not currently prescribing, and 90% of those nonprescribers said they have no plans to do so within the next six months.

The study shows that 84% of the more than 200 pharmacists surveyed are not prescribing, and 90% of those nonprescribers said they have no plans to do so . . .

For those retailers who *are* prescribing, the pharmacists' prescriptions account for less than 1% for the total scripts filled annually.

The negative response was nearly the same for both independents (90%) and chain pharmacists (80%).

The pharmacists gave many reasons for not writing prescriptions. Among the key issues were concerns over "personal liability" (61%) and "increased insurance costs" (32%), as well as "It takes too much time to write prescriptions" (39% of chains and 40% of indys) and company policy restrictions (27%).

Among the reasons that drew a smaller response, 10% of the pharmacists said they had no requests of the drugs on the formulary, 8% felt that there were comparable OTC drugs available that were just as effective, 6% said "pharmacists not really qualified to prescribe/diagnose," and 4% cited inadequate reimbursement for time and effort. Only 1% said that it was because the formulary of drugs allowed to be prescribed was too limited.

Decision makers

In most cases, the decision to prescribe is being made by individual pharmacists rather than by company mandate (74% vs. 24%). Significantly, pharmacists who must follow company policy are overwhelmingly opposed to pharmacists' prescribing (94% vs. 4% who approve of the practice).

The study further showed that pharmacists who were told not to prescribe by company policy were satisfied with the decision. Overall, two-thirds said they "agree completely/somewhat" with the policy, with a large portion answering they agree "completely."

Nearly one-quarter (23%) disagreed "completely/somewhat." A third of this group believed that the "decision should be left up to the pharmacists' discretion."

Why Florida pharmacists don't write prescriptions

Reason	Total	Chains	Indys
Personal liability	61%	53%	74%
Takes too much time	39	39	40
Increased insurance costs	32	28	40
Company policy	27	27	28
No requests	10	9	13
OTC drugs are comparable	8	9	6
Pharmacist not qualified	6	4	9
No reimbursement for time	4	6	6
Limited formulary	1	2	—
Other	6	8	3
Don't know/no answer	1	2	—

Note: Percentages may exceed 100% due to multiple responses
Source: Lebhar-Friedman Research

Medications most often prescribed under Florida prescribing law

Category (specific drug)	Total	Chains	Indys
Scabicides/pediculocides (Kwell, Lindane)	78%	79%	75%
Eardrops (Domeboro, Auralgan)	28	21	50
Decongestants/antihistamines (Nonafed, Tavist, various generics)	25	21	38
Antifungals (Lotrimin, generics)	25	32	—
Anthelmintics (Antiminth)	19	18	25
Vitamins with fluoride (Poly-Vi-Flor, generics)	19	18	25
Nonsteroidal anti-inflammatory (Ibuprofen)	17	11	38
Antiemetics/antivertigo agents (Antivert, Meclizine)	8	7	12
Other (Pyridium, Duofilm, Corticaine)	14	14	12

Note: Percentages may exceed 100% because of multiple responses
Source: Lebhar-Friedman Research

Even among those pharmacists who are prescribing, the law did not get high marks. While most (68% chain, 75% indys) of this group said they were satisfied with the law, almost half answered they were only "somewhat" satisfied, compared to 25% who said they were "very" satisfied.

Among those prescribing, only 11% of the chains and 12% of the independents registered any dissatisfaction and 18% of the chains and 12% of the independents said they were "neither satisfied nor dissatisfied" with the law.

Overall, while most of the prescribing pharmacists (both satisfied and dissatisfied) said that the current formulary should be expanded, 90% of those who were satisfied with the law said it improved their professional image to varying degrees.

"[The law] allows me to legally help customers in emergencies when they can't get to a doctor," said one pharmacist. Another said the law "has increased customers' opinion of my professional image," while still another satisfied pharmacist said that the "law helps customers save money on doctor visits by self-diagnosis of obvious conditions."

A comment from one pharmacist who thought the formulary could use expanding was: "It's a nice beginning, recognizing the pharmacist has the expertise to prescribe certain items for certain conditions, but I'd like to see the program expanded to include short-term prescriptions."

And finally, from those who were "somewhat" or "very dissatisfied" with the law came these comments: "Not enough products/too limited in what we may dispense" and "not justly compensated for extra time and liability involved."

Most often prescribed

The majority (78%) of prescriptions written by pharmacists were for scabicides and pediculocides, such as Kwell and Lindane.

Other categories included eardrops (28%), decongestants/antihistamines (25%), antifungals (25%), anthelmintics (19%), vitamins with fluoride (19%), nonsteroidal anti-inflammatory agents (17%), antiemetic/antivertigo agents (8%) and other miscellaneous products such as Pyridium, Duofilm and Corticaine (14%).

The data suggest that independents prescribe a greater variety of medications than do chain pharmacists. These included eardrops, decongestants/antihistamines, anthelmintics, vitamins with fluoride, NSAIDs, and antiemetic/antivertigo agents.

Interestingly, chain pharmacists were more likely than independents to prescribe antifungals.

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DRUG STORE NEWS

Vol. 9/No. 5 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. March 2, 1987

Dart reported to eye SGC

WOODBRIDGE, N.J. — Dart Group has reportedly accumulated a stake in Supermarkets General Corp., operator of food and drug stores under the Pathmark, Purity Supreme, Heartland and Pharmacity banners.

At presstime, rumors that the acquisition-minded Dart Group had acquired at least 4.9% of the shares of SGC could not be confirmed. Spokesmen for both companies refused to comment on the published reports, and a spokesman for the Securities and Exchange Commission said Feb. 18 that no documents relating to the purchase of SGC stock by the Dart Group had yet been filed. Purchasers of more than 5% of a company have 10 days in which to file.

Part of strategy to reverse losses

Pay 'n Save sets mail-order course

By Bruce Buckley

SEATTLE — Pay 'n Save will take a crack at the growing mail-order pharmacy business this year, according to Gerald Nathanson, the drug chain's vice chairman and ceo.

"It's a big business, and we're going after it," said Nathanson, the former McCrory executive who took over the struggling company last October. "We'll do it on our own or as a joint venture," he said.

Nathanson pointed out that although margins for mail-order drugs are less than for those sold at retail, the staffing costs of maintaining a mail-order facility are much less, and, in fact, the lower costs more than offset the slimmer margins.

Mail-order pharmacy is just part of a major strategy overhaul that Nathanson and a new team of top executives are undertaking in an attempt to reverse the company's fortunes after last year's staggering losses.

'Pay 'n Save has to cross the line between ordinary and extraordinary. Most retailers never cross that line.'

Gerald Nathanson
Vice chairman and ceo

For the year ended Nov. 1, 1986, the 140-store company (107 Pay 'n Saves, 33 Bi-Marts) rolled up losses of $49.5 million on sales of $551.1 million.

Some of the losses had been anticipated, the result of a radical shift in merchandising strategy instituted early last year by chairman William Zimmerman. The strategy en-

See **Pay 'n Save,** *page 41*

Revco gives cosmetics facelift

Revco reports dramatic increases in cosmetic/fragrance sales after developing a new planogram that gives the section "greater visibility" in the front of their stores.

In some 15 Revco stores that have been retrofitted to locate the cosmetics and greeting card departments closer to the front of the store, per store sales are up "dramatically" in both departments.

Revco's top management is still in the process of completing their capital expenditure plans for fiscal 1988, which begins June 1, but Ellis Jones, Revco's divisional merchandise director, says the retrofit is a definite success and will be a key priority in Revco's 1988 budget.

Jones said that Revco will continue with the retrofit in as many stores per year as are fi-

See **Revco,** *page 41*

LATE NEWS

• NEW YORK — Thrift Drug posted its fifth consecutive year of record profitability, spurred by store growth, increased dominance in the mail-order pharmacy business and the success of its new durable medical equipment business.

• DALLAS — Kroger, Tom Thumb/Page, Skaggs Alpha Beta and Safeway each launched triple coupon offers here in February, limiting each shopper to four redemptions. Double couponing is already common in the market.

• WEST SPRINGFIELD, Mass. — The Jean Coutu Group U.S.A. has delayed opening Maxidrug here, its first deep discount effort, until March 26. Systems still need to be tested and shelf sets done. By buying a local independent, the store's pharmacy operation will start with a 30,000 patient file.

Walgreens seeks new Rx ventures

DEERFIELD, Ill. — Armed with a nationwide, online pharmacy computer system and its powerful health care franchise, Walgreens is extending its prescription drug marketing efforts into new areas.

The chain, which put together a 28.5% increase in pharmacy sales last year, is going after third-party prescription business and building on its nursing home and mail-order Rx market.

See **Walgreens,** *page 41*

At Kroger, high blood pressure doesn't pay

LOUISVILLE, Ky. — Traffic for blood pressure tests increased fourfold at some Kroger supermarket pharmacies in the Lexington and Louisville markets, where Kroger gave perfect scorers $25 gift certificates.

"We thought it was very clever," said Mitch Jacobs, vp-marketing and merchandising, at Richmond, Ky.-based Begley Drugs. "But we don't think they've made a major impact in the pharmacy market," Jacobs added.

Kroger store sources said the Feb. 2-7 promotion that started with full-page ads in the *Lexington Herald-Leader* and the *Louisville Courier-Journal* produced daylong

See **Kroger,** *page 41*

NEWS IN BRIEF

Wetterau combo format in the wings

ST. LOUIS — Wetterau's retail division is drawing up plans for a new, franchised combination store format of up to 100,000 sq. ft. and hopes to open the first such unit this year, company officials say.

Although the prototype is "still in the development phase," a spokesman said, the food wholesale and retail company is known to be committed to "the latest thinking of a large, combination-store format," with an upscale decor, specialty departments and a fully stocked drug store section. At Wetterau's annual meeting last year, retail group president George Chirtea called such a format "the wave of the future."

The location of the first unit and other details have yet to be decided, according to company spokesman Dick Dalton. Wetterau already acts as supplier and franchiser of several supermarket and warehouse store formats and operates a chain of combo stores under the Laneco banner in Pennsylvania and New Jersey.

Head of Perry's Chicago group retires

PONTIAC, Mich. — Seymour "Sy" DeKoven, president of Perry Drug Stores' Chicago group, has retired after six years with the chain and 41 in the industry. He will be a consultant for Perry, at the request of chairman Jack A. Robinson.

DeKoven was a partner in a 26-store chain acquired by Perry in 1980. He was then appointed president of the Chicago group.

Seymour "Sy" DeKoven

Van Laare gets SDM- Pharmaprix post

TORONTO — Shoppers Drug Mart has named Fred Van Laare as executive vp-operations, responsible for all SDM and Pharmaprix operations across Canada.

He had been executive vp-operational services and served earlier as executive vp of the company's Florida division.

Fred Van Laare

Alco buys companies in Ind., Ark.

VALLEY FORGE, Pa.—Alco Health Services Corp. said it has purchased Archer Drug Co., Little Rock, Ark., and Michiana Merchandising Systems, Mishawaka, Ind. They are distributors of pharmaceuticals, H&BA and sundries and were purchased for undisclosed amounts of cash.

Archer had sales of over $35 million in 1986 and Michiana annual sales are in excess of $20 million.

McKesson completes Millbrook purchase

SAN FRANCISCO — McKesson Corp. has completed its buy of Millbrook Distributors Inc.

Millbrook distributes H&BA, gm, food and candy to supermarkets and department stores in 11 Northeastern states. With $95 million in annual sales, Millbrook has 300,000 sq. ft. of warehouse space in Leicester and Worcester, Mass.

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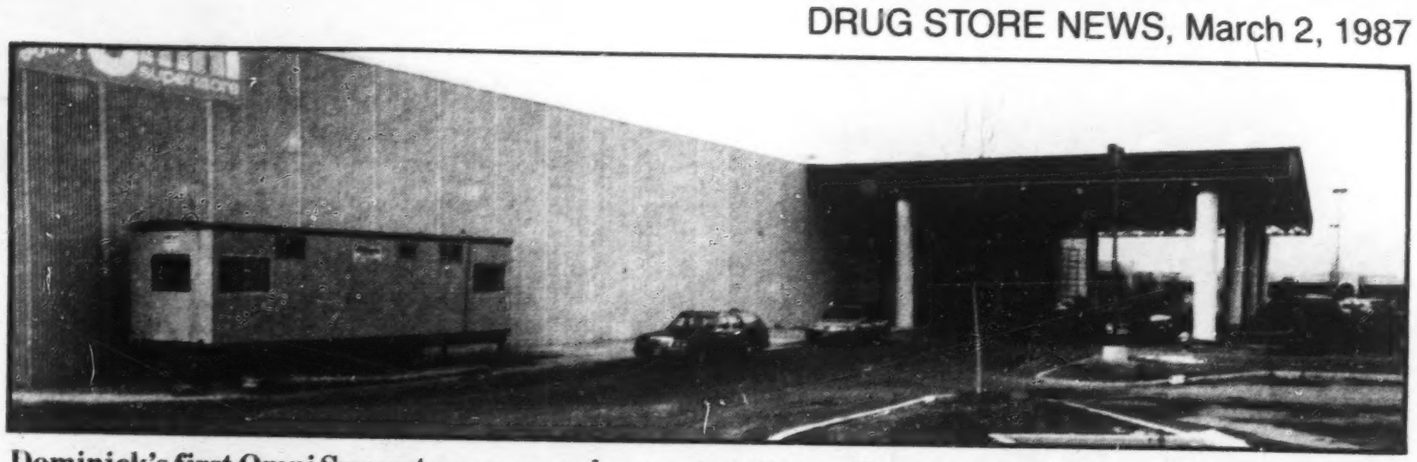


Dominick's first Omni Superstore, now under construction, will co-anchor with Zayre the Green Oaks shopping center in Orland Park, Ill.

Dominick's superstore set for Chicago spring debut

CHICAGO — Drug store retailers will face a new source of competition here when Dominick's Finer Foods opens its first Omni Superstore in April.

The new prototype will offer a full-scale pharmacy and broad mix of food, drug and general merchandise in a large-scale, upscale-look superwarehouse format, at discount prices.

The first Omni store will open in the Chicago suburb of Orland Park, and plans call for as many as four additional units in the Chicago area this year, according to local observers. The stores will range in size up to about 90,000 sq. ft., with ample space devoted to H&BA, greeting cards, video rentals, household products and even lawn and gardening equipment. Despite the warehouse format, the units will feature a clean, upscale shopping environment.

'Unique concept'

"This will be a new, unique superwarehouse store concept, and a brand-new era for Dominick's," noted a company spokesman. "Omni will mean innovative, third-generation stores offering the widest possible variety of merchandise in an upscale format."

Omni is the newest weapon in the chain's already powerful retail arsenal, which also includes combo stores and Jerry's a growing chain of deep-discount drug stores. The Omni format is being developed by a new, wholly owned division of Dominick's called Omni Superstores.

Reportedly involved in the project are Jim Fenzel, the chain's director of purchasing, and some retail veterans of Cub Foods, the nation's largest operator of warehouse grocery stores. Cub already operates seven units in Chicagoland, but Omni, with its broader merchandise mix, is expected to have a greater impact on local drug retailing.

89 supermarkets

Dominick's currently fields 89 supermarkets in Greater Chicago, including 11 combo stores, and three Jerry's off-price drug stores. The chain opened its 11th food/drug combo Feb. 24 in the suburban community of Hoffman Estates and plans to open another three Jerry's units this year.

Osco expands role of key exec Grove

OAK BROOK, Ill. — Osco Drug has named former vp-distribution Ronald Grove to the newly expanded position of vp-marketing. Grove, 45, replaces former vp-marketing Haven Ready, who has joined Seattle-based Pay 'n Save as vp-operations and distribution.

Effective Feb. 4, the appointment gave Grove overall responsibility for three key areas—merchandising, advertising and distribution—and makes him one of Osco's top decision-makers. "It's an expanded role, since Ron is still in charge of distribution. That wasn't a part of the vp of marketing position before," said Bob Braden, Osco's vp-advertising. "Ron already had broader responsibilities than just vp of distribution, before the promotion."

Reporting to Grove will be Arlyn White, former director of physical distribution, now promoted to vp-distribution. As such, White will continue to oversee day-to-day physical distribution and the daily operation of Osco's warehouse facilities nationwide, Braden said.

The creation of an expanded position for Grove may allow for a closer coordination at Osco between purchasing, promotion, shelf allocation and planning, and inventory management. The chain now operates the most far-flung drug store network in the United States, with 660 units in 30 states coast-to-coast.

Drug Emporium beefs up Atlanta base

Deep discount prices stoke market competition

ATLANTA — Extending its reach in the nation's 12th-largest drug store market, Drug Emporium opened two new deep discount outlets here Jan. 29 in the rapidly growing suburbs northeast of the city.

The openings bring to 16 the number of Drug Emporium stores now operating throughout the Atlanta market, all of them corporately owned.

The Atlanta market has traditionally been dominated by Jack Eckerd, Peoples Drug Stores' Reed Drugs division, Revco D.S. and Thrift Drug Co.'s Treasury Drug division. Drug Emporium's rapid move into Atlanta over the past three years, however, is having a profound effect on market share, and the off-price drug chain is now challenging Revco and Thrift for third place in drug store sales in greater Atlanta.

Expansion not over

The chain's expansion in Atlanta is not yet over, said executive vice president Gary Wilber. "We really see it as a 20-store market," Wilber said, "but we are concentrating on strengthening other markets for the rest of this year."

Drug Emporium now numbers 117 units nationwide and plans to open another 30 to 40 off-price drug stores this year, Wilber added. Most will be franchised rather than corporately owned. The new units will be spread throughout many of the chain's current market areas.

"We're not making any big push into a new market this year," he said. "Our growth this year will be a lot of one- and two-store additions in existing markets, and it will be pretty widespread coast-to-coast. There are a lot of spots to fill in."

Correction

Because of a typographical error, the date of the Associated Chain Drug Stores' special program at this year's Housewares Show was incorrectly given. ACDS will show member chains as many as 150 "Super Special" items on Monday evening, April 6, at the Conrad Hilton & Towers in Chicago.

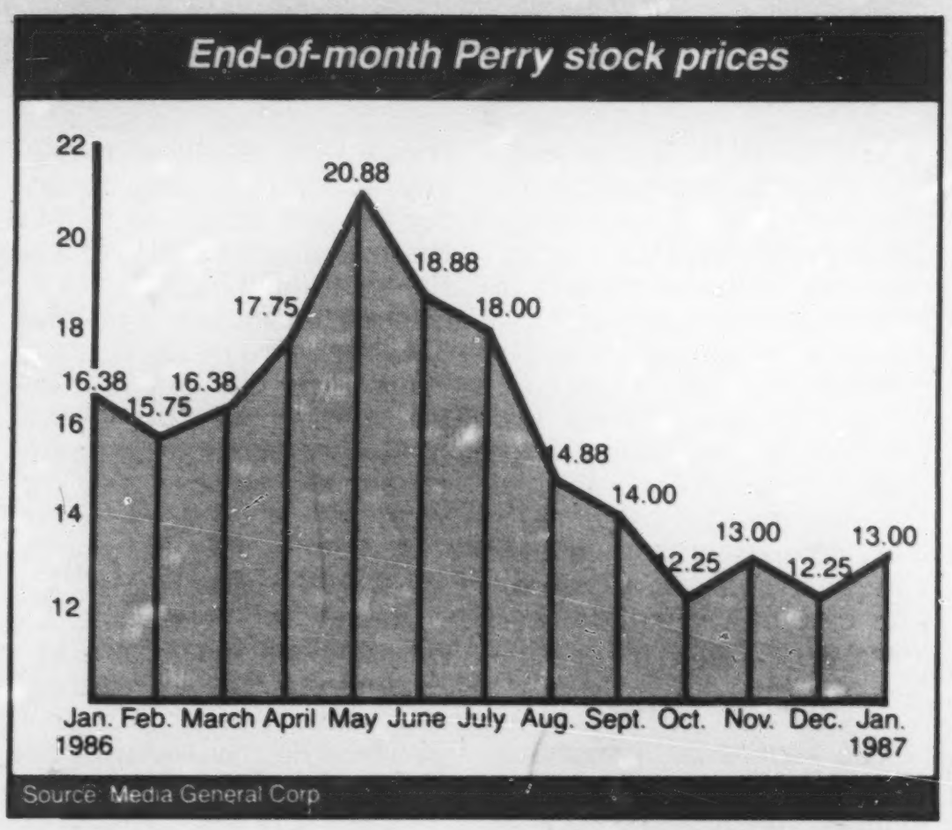
Perry adopts takeover defense plan

PONTIAC, Mich. — Perry Drug Stores is the latest publicly held drug chain to gird itself against a possible hostile takeover attempt.

Perry's Board of Directors, fearing that the company's low stock market valuation could make it easy prey for a corporate raider, approved a complex plan in early February that could make an unfriendly bid far more difficult.

Faced with a sluggish performance on Wall Street over the past year or so, several public drug chains have adopted antitakeover measures, including Longs Drug Stores, Genovese and Big B. Perry's vulnerability has increased as its stock price has remained at the low end of its 52-week range for months. Since last fall, the company's price per share has traded mostly in the $12-$14 range, far below its annual high of $20.88.

"We all know the flirtatiousness of the stock market, with Wall Street placing a high premium on different industries at different times," noted Bob Berlow, Perry's vp and general counsel. "The concept here is to try and maintain the value of Perry's stock and ensure that all shareholders are treated fairly and equally in the event of a takeover attempt."



Rights plans

Under the shareholder rights plans, Perry's board declared a dividend distribution, payable Feb. 20, which gives Perry shareholders the right to buy shares of a newly authorized series of preferred Perry stock. Each share of common stock held at the close of business Feb. 20 entitles shareholders to purchase 1/100th of a share in the newly authorized preferred series, at an exercise price of $48.

In the event of a hostile takeover bid, shareholders exercising their option would then have the right to buy shares in the takeover firm at a discount of 50% below market price, in an amount matching their stake in the new series of Perry preferred.

Thus, a Perry shareholder who purchased one full share of new Series A preferred for $4,800 would then be entitled to purchase up to $9,600 worth of stock in the acquiring company for another $4,800.

'Cooling-off' period

The rights option would be triggered in the event any suitor acquires more than 20% of Perry's common stock, Berlow explained. The plan also allows for a 20-day "cooling off" period in which both sides could negotiate.

"The whole idea is to force the suitor to come to the table and talk with the company to arrive at a fair price for shareholders," Berlow said. "It would reverse the situation against the hostile bidder."

Growth seen for upscale makeup, scents

WASHINGTON — More fragrances and cosmetics from upscale manufacturers will be found on discount drug store shelves in 1987, according to U.S. Department of Commerce forecasts.

"Price will continue to be a strong influence on sales," said government economists, in predicting increases in sales of "prestige" toiletries through discount outlets.

Fueled by rising demand at the mass market level, U.S. cosmetic industry shipments should rise 2.6% this year. Economists are projecting a shipment value of $13.7 billion in 1987, up from $12.9 billion last year. In addition, growth in toiletries sales should continue

Continued on page 16

Reeves, unHooked, to consult

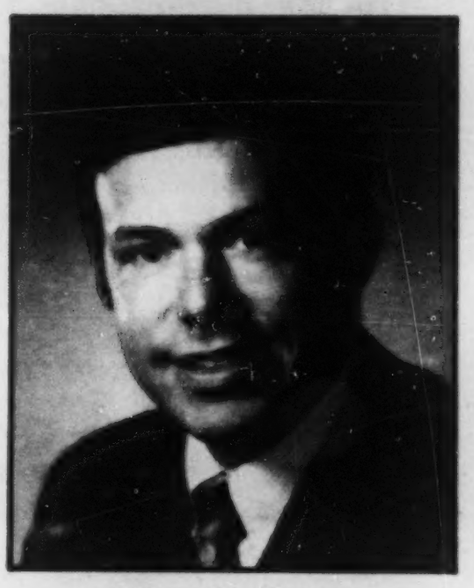
KNIGHTSTOWN, Ind. — Where does a top drug executive turn for job security in an industry awhirl with takeovers?

If you're J. Douglas Reeves—whose Hook Drug chain was sold twice in two years—you might say: "If you can't beat them, join them."

"I'm not a person who second-guesses someone else. If you give me a lemon, I make lemonade and go on," says Reeves.

Became a consultant

After Reeves bailed out of the buyout of Kroger's Midwest SupeRx and Hook stores, he set up as a consultant in his hometown here. In his role as a consultant for Hook-SupeRx Inc., the new drug chain that was formed, he has helped to plan Kroger's divestiture of its remaining drug stores, working as a liaison between Kroger and the purchasers. He was also responsible for operating the stores until they were sold.



J. Douglas Reeves

"I'm very proud of the record that we achieved at the Hook's organization; and the experience now serves me well as a consultant," said Reeves.

"I might be interested in running a business again one day, but I'm not actively looking for a responsibility at this point," he added.

Reeves, with Hook for 23 years, continued in the chain's chairmanship when Kroger bought the business in 1985, after Rite Aid made a bid for the Indianapolis-based chain. He was then named a drug division executive vp in charge of the SupeRx drug store operations.

Helped in planning

When the pressurized takeover climate prodded Kroger into studying divestiture moves last June, Reeves helped to plan Kroger's drug store options. But by October, he knew he didn't want to join the planned leveraged buyout.

"There was a role for me in the leveraged company if I sought it out. But I'd always been in a company that had developed its own cash internally, and I didn't feel comfortable in an environment where there was significant debt, especially when a major time commitment had to be made," Reeves said.

Apart from his relationship with HSI, he has seven other clients for whom he is involved in strategic planning and executive training.

Auto Works DC unites distribution, warehousing

MORAINE, Ohio — Perry has opened a new, highly automated warehouse here, which brings together for the first time all warehousing and distribution activities for its Auto Works discount auto parts division.

The move also frees up significant distribution space for drug store merchandise in the central Pontiac, Mich., warehouse.

The new, 312,000-sq.-ft. center, opened Feb. 2, consolidates all auto parts inventory under one roof and provides a central distribution site with access to major interstate highways, including I-75, I-70 and I-71. It will supply all 233 Auto Works stores in nine states, as well as all auto parts sections in Perry drug stores.

All auto parts sales account for approximately 25% of total corporate sales.

Perry's auto parts inventory was formerly supplied out of the company's distribution centers in Pontiac; Columbus, Ohio; and Muncie, Ind., as well as from ancillary sites.

'A step forward'

"The opening of this center is a big step forward in the growth of the Auto Works division," said Perry spokesman Len Fink.

Built at a cost of $5 million in an existing structure, the new warehouse has the space capacity to stock 500 Auto Works stores fully, thus paving the way for a doubling in size of the existing Auto Works division. The center "surpasses Pontiac" in its level of state-of-the-art automation, Fink said, with automated picking and sortation systems, high-speed conveyors, laser scanning and other features. The scanning system can sort up to 120 cases a minute for automatic routing to truck shipping bays, he added, or a total of about 15 million cases a year.

Perry added another 50 Auto Works stores last year and reaped $144 million in sales from the division. Those sales added up to 22% of total corporate revenues.

Ex-chain exec Kepford dies

HARBOR SPRINGS, Mich. — Ira C. "Ike" Kepford, former president of Liggett-Rexall Drug Co., died here last month at 67, in the city he retired to 16 years ago.

A Michigan native, he moved to Los Angeles after World War II to work for Owl Drug Co., a subsidiary of Rexall Drug.

He was promoted to vice president in 1949 and transferred to the East Coast. He became a notable industry figure when named to the presidency of Liggett-Rexall, a 360-drug store subsidiary, in 1956, at the age of 37.

Kepford, regarded as a people-oriented manager, also achieved outside the drug store industry. He was an All-American halfback and defensive player at Northwestern University and a decorated U.S. Navy fighter pilot during the war.

Thrifty gains yardage with Gart buy

DENVER — Thrifty Corp. has extended its reach to 13 states and strengthened its retail sporting goods division with the recent purchase of Gart Bros., a thriving chain of 16 sporting goods stores based here.

Under its new owner, Gart Bros. "plans to continue its aggressive expansion plans" in Colorado and other Western states, Thrifty announced.

Gart Bros. has been a fixture on Denver's retail scene for 59 years, operating a well-known multistory retail complex downtown, called the "Sportscastle," as its flagship store. The chain now has 15 other large-scale sporting goods outlets along Colorado's Front Range, from Colorado Springs to Fort Collins.

Neither Thrifty nor Gart Bros. would disclose a purchase price for the takeover. Gart's annual sales have been estimated at nearly $40 million.

Family management

A closely held company, Gart has remained under family management since its inception in 1928. Under the terms of the buyout, president Jerry Gart and other family members will continue to manage the chain as an autonomous unit of Thrifty. The Gart family will also retain ownership of the chain's real estate, leasing the properties to Thrifty's Gart Bros. Sporting Goods division for at least 15 years.

Division president Jerry Gart said the sporting goods chain will be "expanding explosively" throughout the western United States, backed by new infusions of capital under Thrifty. The acquisition, he said, "merely accelerated our plans" to move into such markets as Salt Lake City, Phoenix, Kansas City and Omaha, Neb.

Thrifty plans

Thrifty now operates more than 600 drug stores in nine Western states, as well as 91 Big 5 sporting goods stores in California, Nevada and Washington, and 23 MC sporting goods outlets in Michigan, Illinois and Ohio.

The chain will open about 50 new drug stores this year, including 25 large-scale Thrifty Drug and Discount Stores and 25 Thrifty Jr. outlets. At this time, there are "absolutely no plans" to bring its drug store operations into Colorado, a company spokesman said.

TRENDS

Service, quality—not price—drive photofinishing

Photoprocessing remains a crucial element of drug store retailing, contributing nearly $1 billion to total industry revenues last year and providing a solid traffic draw. But intense competition from one-hour mini-processing labs and other sources has squeezed margins and slowed growth rates for drug store photofinishers.

Even Walgreens, a chain drug industry leader in photofinishing, has seen a modest slowdown in the rate of growth for its processing business. Sales for the category were still up a healthy 15% last year, on top of 20% increases in prior years, the company reported, "with excellent profit improvements."

Increases spotty

Industrywide, however, photofinishing sales increases are spotty, despite the rapid growth in popularity of 35mm formats and the growing sophistication of amateur picture-takers. Although business continues to grow—last year Americans spent about $4 billion to develop some 13.9 billion photos, according to the Photo Marketing Association (PMA)—the sales pie is being cut into more and more pieces as new competitors enter the field. Among the chief culprits are mini-labs—a relatively new phenomenon—and one-stop superstores.

"Photofinishing has been a struggle this past year, because everybody's in the business now," noted Bill Dunaway, Dunaway Drug Stores president, echoing a commonly heard complaint. "One-hour labs have sprung up all over our market area, and every discount store and superstore in town has a piece of the film processing business now."

Added Russ Smith, May's Drug Stores executive vice president: "The processing business seems fairly flat right now. I think from time to time, you need to make changes in the way you market and promote the business to keep up your sales increases."

Service, quality key

Smith and other chain drug executives agree, however, that it is service and print quality—not price—that drive photofinishing sales today. "We're extremely quality-oriented in our approach to photo printing and constantly checking our work," said Wynne Powell, photo merchandise manager for London Drugs Ltd. in western Canada. "We'd match our work against that of any professional lab."

London is one of the most aggressive marketers of photofinishing services in the chain drug industry and was a pioneer in the installation of one-hour in-store mini-labs in its large-scale drug outlets. The in-store units are now a part of all but two of the chain's 28 stores, establishing London as a leader in film processing and photography equipment sales in its market.

The chain goes far beyond just the convenience aspect of in-store lab work, however.

"A lot of people think it's easy to just set up an in-store lab and pick up more sales, but I would caution them that this is an extremely cutthroat, low-margin business to be in unless they are ready to devote their attention and resources to it," Powell told *Drug Store News*. "To work effectively, you have to have a combination of things: the right location, the right equipment, a well-trained staff, heavy store traffic and a commitment to quality photofinishing.

'Repeat business'

"Photofinishing is a repeat business," he went on, "and customers will remember convenience and quality before they remember price when they're looking for a developer. We treat it as a specialty business within the drug store framework, and we take pains to maintain skilled sales staff."

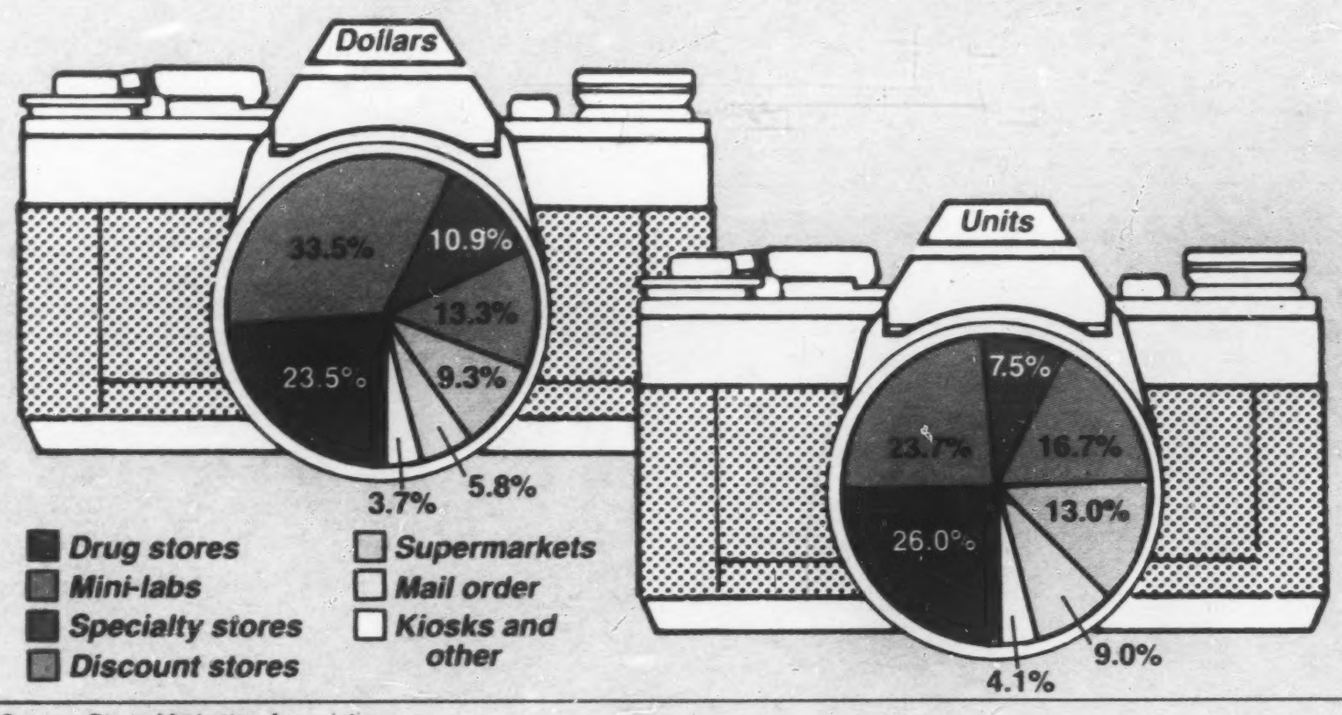
"We're considering in-store labs for the first time, in certain units where we feel store traffic warrants it," added May's Drug Stores' Smith, "but it depends on where we take the concept. My interest is still in getting the customer into the store twice to develop and pick up his pictures."

Despite its costs, the one-hour lab has come into its own and is now a market force. Many drug chains are again seriously considering the installation of one or more such labs in their stores, after earlier rejecting the concept as too expensive and labor-intensive. The development of simple-to-use mini-labs for in-store use, like Eastman Kodak's Image Center and Fuji's Minilab 23S, and the demand among shutterbugs for higher-quality prints and quicker turnaround are making the one-hour concept a more realistic proposition for many retailers.

Watching market

"We looked hard at one-hour labs about two years ago and concluded that with the kind of capital investment and commitment in personnel it would take, it wasn't worth it to us," said Gary Skelley, director of drug and general merchandising for Raley's Food and Drug Centers. "We're still holding off, but we're keeping up with the one-hour market to see if it might prove worthwhile for us later."

Photofinishing by outlet in 1986



Source: Photo Marketing Association

Point-and-shoot 35mm clicking

The explosion in popularity of low-priced, automatic 35mm lens shutter cameras is transforming the market for cameras in the U.S. and Canada and eroding sales of both high-end single lens reflex cameras (SLRs) and traditional point-and-shoot 126 and Disc camera formats.

The sales boom for 35mm non-SLR cameras, fueled by the demands of a more sophisticated generation of amateur shutterbugs, has been exceptional. In 1986, the easy-to-use 35s accounted for 30.5% of all sales to dealers, according to the Photo Marketing Association (PMA), up from 21.9% the previous year. Demand for the automatic 35s—also known as lens shutter cameras—has come at the expense of both low- and high-end models.

The overall market shift is illustrated even more impressively at the retail level, where sales of non-SLR 35s accounted for 37% of unit sales last year, according to research from Eastman Kodak. That compares with just 9% of the market in 1983, Kodak reports.

"Camera sales to dealers in the U.S. were led by the continued growth of 35mm lens shutter cameras," noted the PMA in its just-released *Industry Trends Report for 1986*. "Consumer research shows a definite upgrading pattern on the part of consumers, from traditional point-and-shoot 110s, 126s, Discs and Instant cameras to 35mm lens shutters and SLRs."

Offer high resolution

"We're seeing very strong growth in the 35mm non-SLRs," agreed Bob Saunders, marketing specialist in trade sales for Eastman Kodak. "They're fairly inexpensive and a lot simpler to use, but offer the high-resolution print quality of 35mm that higher-income, higher-educated consumers want."

Shipments to dealers of non-SLR 35s increased about 28% in 1986, to five million, the PMA reports. Unit sales of SLRs and disc cameras, meanwhile, declined substantially, to 1.9 million and 3 million, respectively. In terms of percentages, SLRs dropped to 11.6% of total sales to dealers last year, the PMA notes, while disc models dropped to 18.3% of sales from 27% the year before.

The trend is expected to continue in 1987. Kodak predicts that camera sales will grow another 12% at retail this year, largely through the popularity of easy-to-use 35s, which are predicted to rise 16% in sales. And while the staple 110 pocket camera "is still a good item for us," Saunders says, he admits that the 126 model "is slipping" and says the disc camera "will be driven by retail promotions" in 1987 to maintain sales levels.

110 model resilient

Significantly, the basic 110 model has shown resiliency in the face of the boom in point-and-shoot 35s. Combined shipments of 110 and 126 models last year actually increased as a percentage of total sales, to 18.9% from 18% in 1985, even though total unit shipments of all cameras decreased to 16.4 million from

Continued on page 12

At Fay's, Schenectady, N.Y., a combined photo/CE department near store exit has self-service film pegged to add impulse sales.

Photo **TRENDS**

Camera market shift sets 35mm film on a roll

The shift in the camera market to 35mm photography has also sparked a fundamental change in the market for film.

Of the 731 million rolls sold to dealers last year, more than half were 35mm, the Photo Marketing Association reports. By 1990, the report indicated, 70% to 75% of all film sold will be in the 35mm format.

"I think disc film has reached a saturation point, and 35mm is really leading the way," said Ron Dubner, national manager of chain accounts for Fuji Photo Film USA. "The 35mm film buyer is a different type of customer, who doesn't mind paying more for film and processing."

Film manufacturers are promoting their products more aggressively than ever as the field crowds with new competitors. One of the toughest has been 3M—already the nation's largest maker of private-label film—which last year began marketing 35mm and disc color film under its powerful Scotch brand.

The company began an aggressive, customized sales and marketing program for Scotch film and gained rapid market penetration. One notable conquest has been Wal-Mart, which switched from Fuji to 3M under its "Buy American" campaign.

The leaders in the market have responded with their own aggressive marketing plans for this year. Kodak, for instance, is expanding its multipack offerings and is shipping a special bonus pack, with 12 free exposures, for an April promotion on packs of three rolls. In May, the industry leader will kick off a major coupon promotion good for 50¢ off the purchase of two rolls and discounts at major theme parks. To drive disc film sales, Kodak is also boosting co-op advertising allowances on disc by 50% this year.

Fuji, which maintains a strong franchise in many outlets, will also "take an aggressive stand and continue with a strong consumer promotion campaign" in 1987, Dubner said. Fuji has become the official film of major league baseball, beginning this year, and has hired baseball great Mickey Mantle as its corporate spokesman for 1987.

Source: Photo Marketing Association estimates

PMA reports Americans took about 13.9 billion exposures in 1986, an increase of 5%-6% over 1985.

Retailers pair batteries, photo

The entry of Eastman Kodak into the competitive battery market last year underscored the close kinship between batteries and photo supplies on retailers' shelves. That natural relationship of categories is being heavily exploited by drug store photo merchandisers, who generally position smaller-sized batteries in close proximity to their camera departments as well as in separate sections.

The reasoning is simple enough, since the categories go hand in hand. By exploiting the dependence of picture-taking consumers on batteries, retailers are also helping to drive the battery market ahead with annual sales increases of about 10% in dollars, for total sales last year of about $2.5 billion.

Together, drug chain and independent drug stores control about 20% of the battery market. In their favor is the fact that women now purchase more than half of all batteries. Between them, however, discount stores and supermarkets account for well over half of all battery sales.

For retailers, the entry of newer competitors like Kodak and Panasonic, with their own long-life battery products, has sparked a category traditionally dominated by Eveready Battery and Duracell USA.

Efforts by manufacturers to improve market share have led to product and packaging innovations over the past several years, like longer-life power cells and multipacks (pioneered by Rayovac).

Customer loyalty! Retailers report 90% repeat purchase rate.
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Cold Sore Lip Balm. "It Works!"
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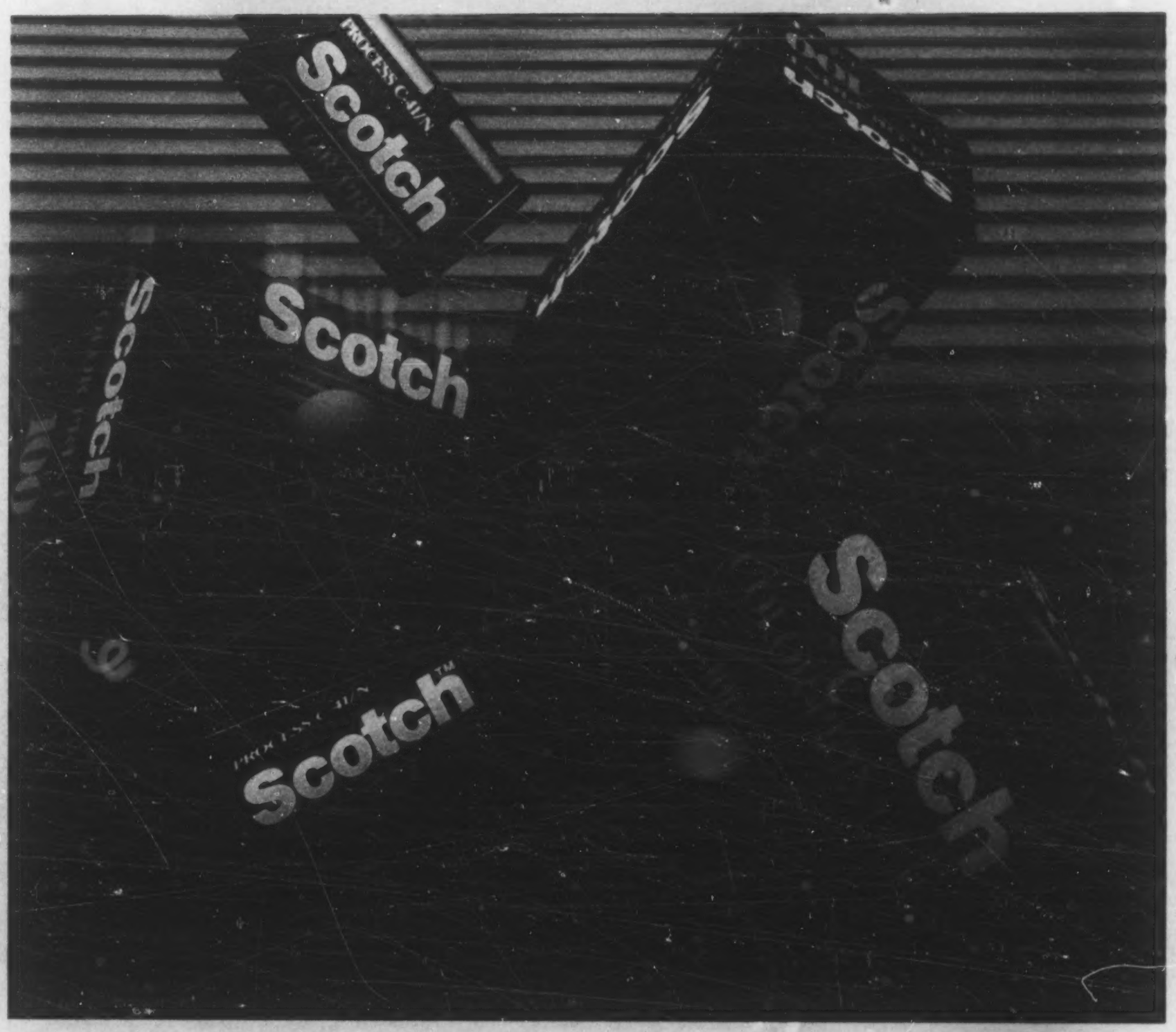

Very fast. A recent study shows that consumers are immediately motivated to try Scotch® color film because of its competitive price.

And a follow up survey reveals that 96% of those buyers rated Scotch color film just as good or even better than their usual brand. So good that they'd even recommend it to their friends.

Want to give your sales a quick boost? Call 1-800-328-1300 for information on our special trial-size pre-packed displays.

But you'd better hurry. Because like our film, they're going fast.

Picture[redacted]rfect.

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3M

At Dart, Greenbelt, Md., popular-priced men's colognes and after-shaves benefit by being near cosmetics and costume jewelry.

In Revco, as in other drug stores, the best selling men's toiletries are still the grooming aids: shaving creams, after-shave lotions, hair sprays and colognes.

After-shaves still best sellers in men's toiletries

Although some department stores report that men's toiletries sales made a big splash in 1986, especially at Christmas, most drug chains quote more moderate growth rates.

"Steady, but not dramatic" is the way buyers for men's toiletry items characterize year-to-date growth in this category.

Retailers say the category's best selling products are still the low-priced after-shave lotions "that have been around forever": brands such as Old Spice, Brut 33 and English Leather.

They see the strongest growth coming from what many describe as the "prestige mass lines segment,"—Chaps, Stetson, Jovan, Pierre Cardin.

While most buyers don't see dramatic overall growth in the men's toiletries segment, they see the prestige mass segment taking some market share away from the value-priced brands.

Dollar, unit sales

Most buyers agree with A. C. Nielsen, which is estimating that for the first 10 months of 1986, overall dollar sales were up about 9%, while unit sales were down about 1%.

"It's a good, basic business," said one Midwestern drug chain spokesman, "but it's not a gangbusters category. We just get a good, steady, nice business from that category."

"The best sellers are the after-shaves and the colognes," said Dart's Harvey Greene, "but they last a long time, and you can't get dramatic growth from a category that hasn't got a high consumption rate."

"It's not a growing category for us," said Gary Lefferts, president of Austin Drug in East Meadow, N.Y. "With the natural look coming back, even the men's hair sprays aren't as strong as they used to be.

"We do a normal steady business in the basics, but there's nothing exciting to report."

"Each year, we hope it'll fulfill its potential," said Dan Herrmann, former president of Fay's Drug in Liverpool, N.Y. "And each year, we seldom see it any greater than single-digit growth. I've never seen so much effort put into a category with so little results."

Men's skin care

Despite the publicity surrounding the new market for men's skin care items, drug chain retailers say this segment hasn't caught on in their stores, and most doubt that it will in the near future.

"We don't buy skin care items for men yet," says Mary Baker, the cosmetics buyer for Hook Drugs, "because we just don't think our market is ready yet for skin care for men."

"We don't do anything extensive in men's cosmetics," Lefferts added.

"Manufacturers are not advertising this segment enough yet," said Herrmann, "but then again, how much can they spend if they just can't get enough people to use it?"

At Dart Drug, cosmetics/merchandiser Marge De Long believes a market may be developing for men's skin care in major department stores, but it's developing slowly and isn't anywhere near trickling down to the mass market stores.

"I wish more was happening in this segment," she said. "I'd like to see a launch for the mass market that the manufacturers would stand behind and support with some heavy advertising. No one's done this yet, and it might make a difference."

Men's fragrances

In 1986, there weren't many new product introductions to spark sales in men's mass fragrances. Beecham introduced the Adidas line in the fall of 1986, but there were no other major launches in 1986.

Chain drug retailers say this segment needs to see more new product activity.

"There's nothing that's been exciting out there," said Dart's Greene. "The customer is still buying all the old standbys. They're a brand-loyal market, and they're still going with Polo or Jovan or Aramis or Mennen or Old Spice."

"We're getting our greatest turns from the low-priced after-shave segment of the category," said Baker.

The Adidas line of men's toiletries, say buyers, is doing all right, but not spectacularly.

"It's building," said Baker, "but slowly."

In fact, buyers are starting to weed out some of the sku's in the Adidas line. Most say they're keeping the Adidas after-shave and the deodorant, but are dropping the spray and the muscle lotion. One buyer called the muscle lotion "an expensive gimmick" and another said its appeal was limited because something in the formula "smells like Ben Gay."

Herrmann, recently of Fay's, said the Pierre Cardin Musk was a disappointment. "I wonder if there were more than six pieces sold in the country," he said.

But in department stores, and in select drug stores, cosmeticians were reporting that the musk sold rather well.

At Dart, Marge De Long was hopeful that the money Lever Brothers is spending to support its new Access deodorant cologne spray might spark some sales.

"The packaging isn't bad. They're doing national advertising. They might have a winner," she said. "But there's a high price on it, and it's just too soon to tell."

Grooming aids sell best

The Consort line, made by Alberto-Culver, was generally rated excellent by retailers. Hook's Baker said, "We never even promote it and it still sells well. It's a really good brand."

Herrmann said that the best sellers

Continued on page 16

Men's Toiletries: Dollar sales growth
(After-shave lotions and colognes)

1985 (in millions)	% change from 1984	1986* (in millions)	% change from 1985
$471.1	4%	$370.5	9%

*First 10 months of 1986
Source: A. C. Nielsen

Where shoppers buy men's toiletries
(% of 1985 dollar sales)

	Drug stores	Food stores	Mass merchandise stores
After-shave lotion/colognes	57.7%	17.4%	24.9%
Men's hair preps	38.5	45.4	16.1
Shaving creams	32.2	49.0	18.8
Blades/razors	29.6	52.6	17.8

Source: A. C. Nielsen

Women seek bargains, men look for basics

What is the typical men's toiletries shopper looking for in an average drug store?

Bargains, say buyers. "Women are buying what's on promotion."

The men, however, are looking for the basics—after-shaves, hair sprays and colognes.

"The men are definitely not looking for fads," said several buyers.

Most drug store retailers say women make the majority of purchases in men's toiletries. That's one reason why men's fragrances are usually merchandised in the women's fragrance section, rather than in the men's grooming aids section.

"I'd say that 90% of all the men's fragrances we sell are purchased by women," said one source. "By keeping the men's fragrances close to women's fragrances, we're trying to get that impulse sale, and we're also trying to make it easier for women who are gift hunting."

Buyers add that one of the main reasons men's knockoff fragrances aren't selling strongly is that the typical buyer—the woman—just isn't responding to the category.

"Women aren't buying the men's knockoffs as gifts," said Mary Baker at Hook's, "and men aren't picking them up for themselves. You need a good, strong customer base for this type of category, and we aren't seeing it develop."

TRENDS

After-shaves solid sellers in men's toiletries

Continued from page 15

were items, such as Consort, that focused on grooming. "In the past," he said, "there was a mystique associated with the well-groomed look, and men were willing to spend money on lotions and fragrances and hair sprays.

"Then the 60's came along, and that mystique sort of died out for a while. Now it seems to be coming back a little."

However, while the sprays for men seem to be doing all right, the mousse segment for men seems to be dead.

Several buyers said the category "was never even alive for us. Men aren't buying mousse for themselves. If they're using it, they're using whatever their wives or their girlfriends have in the cabinet. Men's mousse never even got off the ground."

ADF's a question mark

The alternative designer fragrances for men is getting mixed reviews. Some buyers say the segment is a completely dud, while others report sales are building slowly.

In the New York market, Lefferts reported some success with the men's knockoff fragrances put out by Deborah International.

Lefferts said sales for the line are gathering momentum slowly. We're doing fairly well with the line," he said, "especially with the Polo alternative."

Dart's De Long said Parfums de Coeur's ADFs, Apollo and Lancer, are "doing O.K., but they're not selling like Primo and Ninja." Other chains are reporting good sell-throughs with the new Classic Match line put out by Delager International.

Greene, however, pointed out that women may not be as likely to buy an ADF as a gift for a husband or boyfriend as they are to buy one for themselves. He also said he thinks men aren't as likely as women to buy an ADF for themselves.

Other retailers say the category lacks a strong incentive for growth because there isn't a big enough price differential between the cost of the traditional men's designer fragrances, prestige mass fragrances like Chaps and Stetson, and alternative designer fragrances, to create a demand for the knockoffs.

"At best, there is a saving of a few dollars," said one source. "However, a woman can save as much as $20 to $50 by buying a knockoff over an original. There just isn't that same incentive in the men's category."

Best selling men's fragrances
(Dollar volume)

Brand	Market share (12 months ended June 1986)
Old Spice	9.9%
Total Chaps*	7.5
English Leather	6.9
Jovan Musk	6.5
Stetson	6.2
Brut	5.6
Pierre Cardin	4.5

*Includes Original Chaps and Chaps Musk
Source: Manufacturer estimates

Eckerd, Indian Rocks Beach, Fla., tailors assortment to vacationers' needs in this market by devoting eye-level space to disposable razors.

Upscale makeup, scents growth seen

Continued from page 4

tinue at about 2.8% per year through 1991, they forecast.

Keyed to women

"Growth will continue as increasing numbers of women enter the workforce and as the population of women over 30, who have more discretionary income and who tend to spend more on personal care, expands," they explained.

At the same time, researchers pointed to men's health & beauty aid products as an area that "promises good growth" in 1987. They specifically forecast increases in sales of "effective, practical and rational" skin care aids for men.

"Sales of skin care products will grow at a faster rate than the average for all cosmetics—about 5% through 1991," they said.

Drug store retailers said, however, that they don't expect much of that men's skin care business. *(See related toiletries article.)*

Sun care potential

Another promising sector for U.S. manufacturers is sun care, particularly sun screens, which researchers predict will command 50% of the sun care market by 1990. Eye makeup, deodorants, antiallergenic products and ethnic cosmetics will also be strong.

According to economists, cosmetics and toiletry consumption by black Americans will increase from $2.7 billion last year to $3 billion in 1987.

"Blacks spend four times more per capita than whites on health & beauty aids," they reported.

Economists also predicted that "established lines," faced with growing competition, will introduce "new and diversified products." In addition, manufacturers will emphasize "regimen buying" (purchase of two or more products) "to achieve an overall effect."

TOILET PREPARATIONS: Manufacturer Shipments, 1972-1986
(in $ millions)

1987[1]	$13,770
1986[2]	12,930
1985[2]	12,140
1984	11,665
1983	10,925
1982	10,183
1981	8,688
1980	7,874
1979	7,422
1978	7,228
1977	6,557
1976	5,896
1975	5,155
1974	4,678
1973	4,359
1972	4,053

[1]Forecast
[2]Estimated
Source: U.S. Department of Commerce

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Ads and Promos: In-store coupon machines, kiosks—p. 4

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DRUG STORE NEWS

Vol. 9/No. 6 **Serving chains, wholesalers and high-volume independents for 57 years.** Published by Lebhar-Friedman Inc. March 16, 1987

American taps Scott for Superstores post

By Dave Vaczek

PHILADELPHIA — American Stores has named former Albertson's ceo Jonathan Scott as ceo and vice chairman of its 558-store Eastern and Midwestern American Superstores Inc. company.

The Superstores division began operating in February after a corporate restructure that also created a separate drug store company, Osco, and a Western supermarket company.

The appointment reunites the team of Scott and American Stores chairman L. S. "Sam" Skaggs, who developed some of the first profitable combination stores in a joint venture of Albertson's and Skaggs Co. in the 1960's and 1970's.

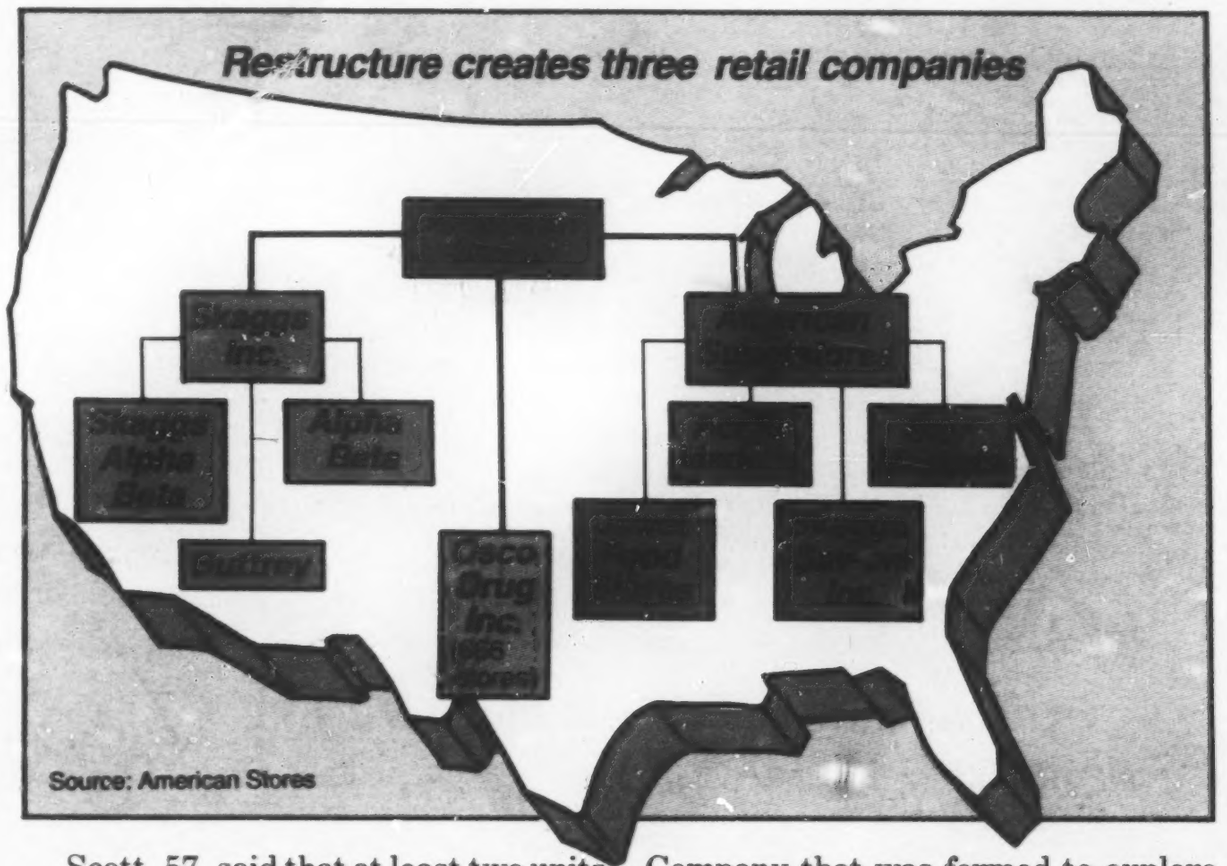
Scott became Albertson's ceo and vice chairman from 1972 to 1974. He was chairman and ceo of the Great Atlantic & Pacific Tea Co., operators of A&P Supermarkets, from 1975 to 1980. Scott has operated his own Texas-based real estate development firm since then.

Moving into Fla.

Skaggs, in a press conference here, said that as part of the American Superstores management team, Scott will oversee American Stores' first move into Florida with a new combination store format.

Scott will also head the $6.4 billion supermarket operation, which includes the 296-store Acme Markets chain based here, the Chicago-based 217-unit Jewel Food Store group, and the 45-store Star Market chain of Cambridge, Mass.

Skaggs told *Drug Store News* that as many as 10 units will be developed initially in western Florida markets.



Scott, 57, said that at least two units will be opened in 1988 in the Clearwater-Tampa-St. Petersburg area, developed by Skaggs—Sav-on Inc., an entity within American Superstores Company that was formed to explore development in the Southeast, Scott said construction will start within two months.

See **American,** *page 45*

Rite Aid's video rental price hike signals shift

By Jim Frederick

Rite Aid raised the price of its basic one-day videocassette movie rental to $1.19 in January, from 99¢.

The change may seem a minor marketing shift at first glance, but it is significant. It signals a change in the attitude of chain drug retailers tired of the low price margins and high costs that have assailed the video rental business nationwide.

Rite Aid is seeking more profitability from video rentals with a 20% rise in rental fees to $1.19, still well below most competitors' rates.

Martin Grass, Rite Aid executive vice president, said sales for the chain drug industry's premier movie source have been "very strong," and added: "We don't see the market as any more competitive than last year.

No objections raised

"We thought we could begin to pass along a higher price and increase our revenues a little without losing sales," Grass said. Early indications, he added, are that Rite Aid's

See **Rite Aid,** *page 45*

Dominick's off-price days end as 3 Jerry's close

CHICAGO — After less than a year of operation, Dominick's Finer Foods is closing its three Jerry's Deep Discount Centers here and getting out of the off-price drug store business in order to concentrate on new ventures.

Dominick's fledgling off-price division has been beset by high operating costs and lackluster sales results, a company spokesman indicated. None of the three Jerry's units—all of which are located in the Chicago area—have lived up to company expectations, local observers report.

Most disappointing, a market source said, has been the first Jerry's, which was opened last May in suburban Franklin Park. Units were added later last year in Lincolnwood and Chicago itself, but Dominick's shelved plans to open three more stores this year as sales sputtered and company managers turned their attention to Omni Super-

See **Dominick's,** *page 45*

F&M plans big in toddlin' town

CHICAGO — F&M Distributors, the rapidly growing chain of off-price drug and general merchandise stores, has targeted this major market for the bulk of its expansion efforts in 1987.

The Warren, Mich.-based retailer, which already operates eight units in Greater Chicago, will more than double its presence here this year.

"We'll open at least 10 additional stores in Chicago this year, and 17 new stores overall," said F&M president Frank Newman.

The first new Chicago-area unit will open in late April or early May, in south-suburban Merrionette Park.

The 28-store chain is still on track with plans to operate 100 deep-discount stores by 1990, Newman said.

Merchandising Spotlight

LATE NEWS

- **NASHVILLE — Malone & Hyde will add pharmacy to its deep discount equation when it opens its third Ike's deep discount store here May 1. The owner of Super D drug stores now operates two nonpharmacy Ike's units in Memphis.**
- **MELVILLE, N.Y. — Genovese was set to equip its first store with POS on March 11, with plans to install a second this summer and as many as four such systems by the end of 1987. The first installation is in Albertson, Long Island, N.Y., one of four stores the chain is opening this month.**
- **LOS ANGELES — Thrifty Corp. will report year-end sales of $1.55 billion, up 10.7%, for 12 months ended Nov. 30, under new owner Pacific Lighting. Net income hit $32 million, up 5%.**

CVS looks to S. Calif. expansion with plans to open warehouse

RANCHO CUCAMONGA, Calif. — CVS will open its West Coast distribution center in this small city of 55,000 around the middle of the year, paving the way for future expansion in Southern California.

The 632-unit drug chain currently has 37 stores open in the Greater Los Angeles market, but has been somewhat limited in its growth plans here by the high cost of real estate and a reliance on long-haul shipping and local distributors. CVS moves as much as 90% of its merchandise in the East through its own distribution network and adheres to a policy of highly centralized inventory control.

The new distribution facility will range from 180,000 to 200,000 sq. ft., according to senior vp-marketing Gary Charboneau. Its size will depend ultimately on whether the chain chooses to locate its Western regional headquarters offices at the site. The site is an industrial park some 50 miles east of Los Angeles, near San Bernardino.

NEWS IN BRIEF

Eckerd promotes 5 execs in operations

CLEARWATER, Fla. — Harry Lambert, president of Eckerd Drug, announced the promotion of five executives in field operations.

Richard Newcomer and Oren Peacock were each promoted to senior vp-sales and operation. Newcomer, a 21-year company veteran, will supervise the chain's Charlotte, N.C., and Georgia/Alabama District. Peacock, who has been with Eckerd since 1974, will be in charge of the company's Dallas and Houston districts.

Also appointed were three new vps in store operations:

David Hensley, vp-district sales and store operations manager for the Clearwater, Fla., district.

Tom Kaplan, vp-district sales and operations for the Hollywood, Fla., district.

Jerry Stettner, vp-district sales and store operations manager for Atlanta.

Med Shoppe projects net growth

ST. LOUIS — In an interview with *Drug Store News* following the annual shareholders meeting, a Medicine Shoppe International spokesman said that revenue and earnings will continue to grow at a projected 20% rate. The company also declared a 50% dividend in the form of a three-for-two stock split, which will bring the total number of shares to approximately 5.2 million when distributed March 23 to holders of record March 11.

The franchised pharmacy chain reported a 19% increase in revenues to $4.7 million and a 22% earnings gain to $977,918 for the first quarter ended Dec. 31, 1986. The company currently operates 653 in 48 states, and all but one is franchised. Sales for the franchised outlets increased 23% to $75.4 million during the first quarter.

Owens & Minor to test system in DC

NEW YORK — Owens & Minor, the nation's third largest distributor to hospitals, will test its first software installation of a radio-controlled materials handling system in a distribution center this month.

Gil Minor III, president and ceo of the pharmaceuticals and medical/surgical supplies wholesaler, told *Drug Store News* at an analysts meeting that its distribution centers currently operate at 65% of capacity.

"They'll carry us through mid-1988, our next $150 million growth in volume," he said in an interview.

Six accused in Ovulen-21 diversion

MIAMI — A Federal grand jury in Florida indicted the president of Lantor Corp.—a small, Miami-based drug and cosmetics wholesaler—and five other Florida residents on charges of masterminding the manufacture and diversion of counterfeit Ovulen-21 oral contraceptives during the early 1980's.

The 29-count indictment accuses Fermin Alfonso, president and owner of Lantor, of engaging in two separate conspiracies to distribute counterfeit versions of the Searle birth control pills, including the heavily publicized incident in 1984 that prompted a nationwide recall by the manufacturer.

It was the discovery of those bogus oral contraceptives in retail drug stores and wholesale drug warehouses across the country that triggered a sweeping Congressional investigation of drug diverters as well as the legislation pending on Capitol Hill to curb Rx drug diversion.

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Vol. 9, No. 6 March 16, 1987

NWDA leader sees indys driving wholesaler growth

VALLEY FORGE, Pa. — Drug wholesalers will achieve sales growth in part through a stronger base of independent drug store customers, predicted Joseph Churchman, president of Alco Health Services and this year's National Wholesale Druggists' Association chairman.

'The independents still there have become much stronger, and with the help of the wholesaler, are finding they can be competitive.'

—Joseph Churchman
president, Alco Health Services and chairman, NWDA

"I think that the reduction in the number of independents has slowed down dramatically, and most of the real marginal operators have been knocked out," said Churchman, who took the helm in November for the 1986-87 year.

"The independents still there have become much stronger, and with the help of the wholesaler, are finding they can be competitive," Churchman continued in an interview with *Drug Store News*. "We may not have as many stores, but in dollars and business, you're going to continue to see growth [through independents]," he added.

Indys opening stores

Churchman noted that for the first time in a long while independents are opening new stores, helped by today's low interest rates. Meanwhile, hospital business continues to offer wholesalers another promising growth avenue.

The independents' new stability has been one of wholesaling's few constants of late, as consolidation has changed the face of the industry. The 140 wholesale companies of 1980 have shrunk to 86 today, and acquisitions by the large players should continue the process, Churchman predicted.

A priority in this fluctuating climate must be to convince young executives that the business is in fact one of the most promising and fastest growing of fields, Churchman said. "We've got to be sure that with all our consolidation, our people understand that there are still opportunities for them. We can't afford to lose them," he said.

Wholesale sales grew

Churchman noted that wholesale sales in 1986 grew 14.8% from the previous year, outpacing the cost of goods sold by 8.65%. And health care is one of the fastest growing industries, accounting for over 10% of the U.S. gross national product.

On the downside, wholesaler margins slipped in 1986 from 9.39% to 8.57%.

Churchman said the most pressing issue and one likely to be resolved this year is drug diversion, which should be clarified when the committee headed by U.S. Rep. John Dingell takes up House Bill 4820.

"I think this issue can be resolved this year, so we can have legislation that will clearly identify what is legal and what isn't," Churchman said.

While computerization has created unprecedented operational efficiencies, wholesalers haven't fully tapped its potential. "We can do more electronically, and eliminate paperwork," Churchman noted.

Rite Aid files for $200M bonds

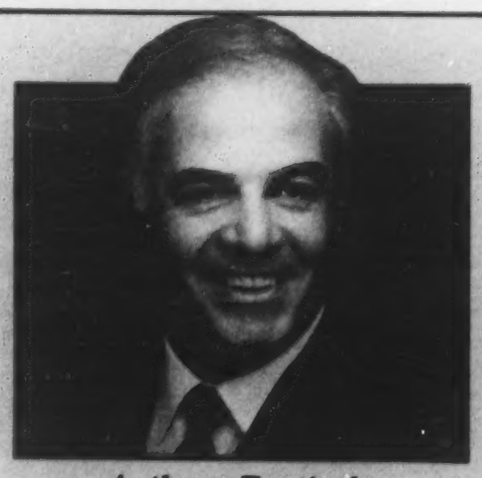
SHIREMANSTOWN, Pa. — Rite Aid Corp. has filed for a shelf registration that will enable it to raise as much as $200 million through the sale of long-term bonds.

Money raised from the sale would be used "for general corporate purposes," the company reported, including the retirement of short-term debt incurred when Rite Aid purchased 218 SupeRx, Gray Drug and Drug Fair units late last year.

Terms of the bond issue are not yet set and will depend on interest rates and other factors. "We filed a shelf registration to have this option immediately available in case interest rates become more favorable for a new long-term bond issue," explained executive vice president Martin Grass. "We're making the arrangements now in order to have the flexibility to react quickly."

The bonds would be sold either directly "or through agents and underwriters that may include Merrill Lynch Capital Markets," the company indicated. Merrill Lynch assisted Rite Aid in lining up capital for its acquisition of the Florida stores last year.

"The major thing we'd use a new bond issue for is to retire the short-term debt incurred from the store acquisitions we made last year, and replace it with long-term debt," Grass said.



Anthony Fanticola

John Walz

DrSN hails board arrivals

Anthony Fanticola, vp-gmm at Vons Grocery Co., has joined the *Drug Store News* Board of Advisers.

In addition, John M. Walz, group president-distribution at FoxMeyer, has become a member of the *Drug Store News* Pharmacy Board of Advisers.

Like their board associates, Walz and Fanticola will be instrumental in enhancing the overall quality of *Drug Store News'* reporting by helping its editorial and management staffs identify key trends within the retail drug community.

Fanticola spent most of his 20 years in retailing at SupeRx in the Greater New York Area. He started there as a receiving clerk, then was promoted successively to store manager, to district manager and to director of merchandising. He left in 1985 to assume his current position at Vons.

He has a wife, JoAnn, three sons and a daughter.

Walz has gained broad-based wholesaling experience over the past 25 years. That experience includes warehouse operations, territory sales, sales management, branch management, corporate sales and marketing, field operations and hospital supply.

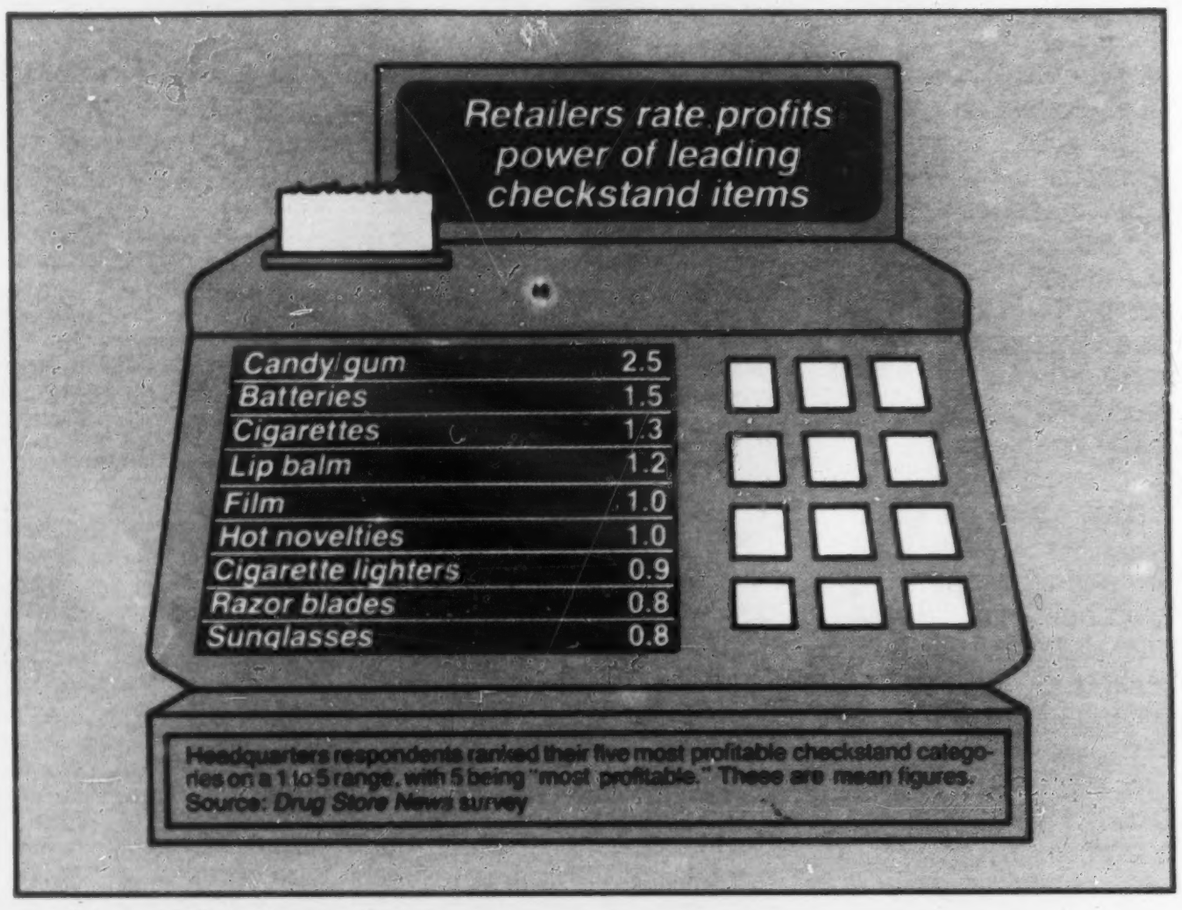
In his current post, Walz oversees operations of FoxMeyer's 30 distribution centers and is responsible for developing prime vendor selling and the effective use of chargeback sales automation.

TRENDS

'We take little input from outsiders on what we sell at the front-end.'
—Don Beeler,
Snyder's

'The space is too valuable. We don't test at the front-end.'
—Jerry Cardinale,
Rite Aid

Pay Less will create more flexible space at checkstands this year for hot items and seasonal goods.
—Gary Brooks,
Pay Less NW


Retailers rate profits power of leading checkstand items
Candy/gum 2.5
Batteries 1.5
Cigarettes 1.3
Lip balm 1.2
Film 1.0
Hot novelties 1.0
Cigarette lighters 0.9
Razor blades 0.8
Sunglasses 0.8
Headquarters respondents ranked their five most profitable checkstand categories on a 1 to 5 range, with 5 being "most profitable." These are mean figures.
Source: Drug Store News survey

Tom Thumb/Page is expanding its rotated assortment of sundries on J-hooks at checkstands.
—Ray Martin,
Tom Thumb Page

'You'd be surprised how fast women pick up costume jewelry and cosmetics at less than $3-$4. They don't need a lot of time to try them.'
—Pat Triboletti,
Happy Harry's

Checkstand 'heaven' inspires fresh approaches

By Al Heller

With near-religious fanaticism, manufacturers pitch their products to retailers with a checkstand promise:

"Put my products there. Turns will improve."

No kidding, respond retailers, hardly in awe. They've heard every story 13 times and more. They could fill a book.

Everyone wants a piece of the checkstand traffic. But only a handful of categories ever get there.

Space-cramped drug store operators see themselves, in a way, as the gatekeepers of Checkstand Heaven. Perform well in-line, they tell vendors, and maybe we'll let you in.

There are a chosen few who seem to earn that prime space automatically—candy, mints and gum, tobacco, batteries and selected magazines. But that's about it.

Allocating space

Retailers guard their checkstand space with constant diligence. "I'd say we take little input from outsiders on what we sell at the front-end," Don Beeler, Snyder's Drug chairman, told *Drug Store News* in a classic understatement.

Drug chain operators nationwide said they generally control most of their checkstand assortments centrally, even though fewer than half planogram. Just 40% said they planogram front-ends, down from 47% who said they did last year.

The vast majority leave store managers with front-end influence. Nearly 3 chains in 4 surveyed said they involve store managers in checkstand merchandising decisions, and about 1 in 3 said store managers are primarily responsible for those efforts.

Three chains that planogram do so for different reasons. Perry, planograming for the past year, began in order to speed checklane transactions by eliminating overflow of merchandise displays that hindered the flow of customers.

Tom Thumb Page does so to maintain a product mix.

Dart sets a new planogram every three months to match assortments to seasons and doesn't tolerate any deviation from store managers.

Merchandising front-end

Pay 'n Save seems to be taking checklane disciplines to a higher level. It recently hired a McCrory's variety store veteran, Jim Pappas, to be responsible for chainwide front-end merchandising efforts.

Snyder's, on the other hand, has a problem shared by Dunaway and many drug chains that limit s their ability to planogram checkstands, even if they want to. They have stores of different sizes and layouts, including many older ones, so front-end sets aren't appropriate chainwide. Instead, Beeler said, his vp-marketing sends a monthly merchandiser sheet to stores that controls the number of checkstand items and keeps checklanes neat. Store managers can add a demand item such as pocket combs if, say they have a youthful, transient business.

That flexibility seems more common than not. At Rite Aid, for instance, the entire candy front is planogramed, but store managers have leeway on where to place novelties across its 24-ft.-28-ft. front-ends.

POS impact

Jerry Cardinale, assistant vp-merchandising at Rite Aid, said that point-of-sale installations in more than 300 stores so far, which are intended in part to speed checkout transactions, haven't had a detrimental effect on impulse sales. He responded to a question about whether customers felt hurried at the front-end.

Video rental departments are also changing the face of the front of the chain's stores. Cardinale said they have no measure of improved checkstand performance due to higher video traffic. The video rental counters, which generate two shopper visits per rental, are typically placed alongside the main checklanes.

The flexibility shown by retailers to locate front-end items differently by store, and to place faddish novelties there, doesn't extend often to testing products by the checklanes. Cardinale said bluntly: "The space is too valuable. We don't test there."

Testing at checkstand

Tom Thumb/Page buyer Ray Martin agreed, though he cited isolated cases where the chain might test new magazines with good introductory offers.

In contrast, Gary Brooks, vp-merchandising at Pay Less NW, said his chain tests new products at the checkout on an ongoing basis.

Moreover, he said Pay Less is changing its checkstand displays "to create more flexible space, as opposed to a completely programmed area." This will enable the chain to "display the temporarily hot items" and have "appropriate seasonal" merchandise up front, he said.

His goal is to have permanent planogrammed year-round merchandise such as candy, gum, mints, razors, blades, batteries and magazines, while developing space for seasonal goods and in-out promotional merchandise.

Tom Thumb/Page is also changing its front-ends this year by expanding sundries on J-hooks. "The items rotate and keep a constant variety," said Martin. Scotch tape, nail clippers and rubber bands are currently displayed this way.

Uncovering hot items

He called magazines his hottest items now because of personalities on their covers. While seeking a broad mix to maximize impulse sales, Martin said he sets alternative publications in the express lane because they're often occupied by men shopping for fewer items.

Snyder's Beeler said some of his hottest items are horoscope books, updated monthly which sell at about 69¢, and football and baseball cards with gum.

Continued on page 14

Display racks used most often

	% of HQ respondents citing use
Freestanding mfr. or floor displays	80%
Cigarette racks	77
Countertop displays	77
Candy/gum racks	73
Dump bins	73
Gravity feed displays	70
Magazine racks	70
Wire racks that display a variety of products	67
Horizontal displays	67

Source: Drug Store News survey

Seasonal checkstand favorites

Winter	Spring	Summer	Fall
Lip balm	Candy, especially Easter candy	Suntan lotion and sunblocks	Cough drops
Cough drops	Suntan lotion and sunblocks	Lip balms	Candy, especially Halloween and Christmas candy
Christmas candy	Antihistamines	Sunglasses	Back-to-school supplies
Ice scrapers/de-icers	Kites	Key chains	Batteries
Antihistamines	Sunglasses	Shoe strings	Gloves
Analgesics		Insulated cupholders	Rain jackets
Tissues		Squirt guns	Film
Ear muffs			

Source: Drug Store News survey
Combined headquarters and store-level responses

TRENDS | Checkstand merchandising

Chains optimize assortment at checkstand

Continued from page 13

Rite Aid has done well since adding improved novelty toys at 59¢ exclusively at checkstands. The chain sells five-piece sets in the toy department.

Brooks of Pay Less said baseball cards and Kool Kubes are "doing exceptionally well."

At Happy Harry's, vp-merchandising Pat Triboletti said Cadbury Creme Easter eggs and Valentine conversation hearts at less than $1 are among his better checkstand items.

He explained further how some costume jewelry and cosmetics priced at less than $3-$4 are rotated between checkstands and in-line displays. "You'd be surprised how fast women will pick these up. They don't need a lot of time to try them," Tiboletti said.

"The next time they visit the store, they might find the checkstand item they saw last time is now in line. It pulls them into the store," he added.

Planogramming behind counter

Happy Harry's uses the type of checkstands used by high-volume New York operator Duane Reade, where multiple registers are staffed behind one long counter and cashiers are elevated so they have good sight lines down aisles.

When it went to these fixtures more than two years ago, Happy Harry's pulled carton cigarettes off the sales floor and placed them behind cashiers. The chain also placed candy bars across the entire front of checkstand displays. Candy and cigarettes are planogramed.

The pressure to have high-performance checkstands is no less at independents. And manufacturers quest for their space too.

One independent said, "I can't tell you how many times vendors came to my store and moved displays closer to registers that I had just moved slightly away."

But there's give and take, he conceded. "A tobacco vendor once came in, photographed my checkstand display of his brands and authorized my allowance. As soon as he left, I took down the displays. When he came back five minutes later for change of a dollar, he gave a double take and said, 'Sold 'em out already, huh.'"

Gatekeepers to Checkstand Heaven probably shouldn't behave that way.

Checkstand sizzlers: The hottest front-end performers

CANDY

- Snickers
- Hershey Kit Kat
- Hershey Reese Cup
- M&M Peanut
- York Mints
- M&M Plain
- Milky Way
- Hershey Almond
- Twix
- Charms BlowPops
- Three Musketeers
- Hershey Mr. Goodbar
- Heide Gummi Bears
- Peter Paul Almond Joy
- Charms Pops
- Snickers King Bar
- Mars
- Peter Paul Mounds
- Hershey Milk Chocolate
- Pay Day
- Baby Ruth
- Butterfinger
- Brachs Bubble Gum Pops
- Nerds Watermelon and Fruit Punch
- Cadbury Thick Bar
- Ludens Fifth Avenue
- Planters Jumbo Blocks
- M&M King Size Peanut
- Hershey Skor
- Hershey Rolo
- Payday Chocolate Covered Skittles
- Welch Junior Mints

CIGARETTES

- Marlboro King Soft Pack
- Marlboro Flip Top Box
- Kool King
- Winston King
- Marlboro Lights King Soft Pack
- Salem Light King
- Newport Soft Pack
- Salem King
- Pall Mall King
- Salem Light 100
- Merit King Soft Pack
- Winston Light King
- Marlboro Lights King Box
- Salem 100
- Marlboro Light 100 Soft Pack
- Winston 100
- Merit 100 Soft Pack
- Marlboro 100 Soft Pack
- Virginia Slim Lights 100 Menthol Box
- Winston Light 100
- Kool Long
- Ritz
- Benson & Hedges 100 Menthol Soft Pack
- Vantage King
- Virginia Slim Lights 100 Box
- Carlton 100
- Kool Milds King
- Carlton Filter King
- Virginia Slims 100 Soft Pack
- Camel Regular
- Benson & Hedges 100 Light Soft Pack
- Virginia Slim 100 Menthol Soft Pack
- Kent King
- Merit Ultra Lights Regular

SHAVING NEEDS

- Bic Men's Shaver Disposable
- Bic Razor
- Private Label Bonus Blade—Filler Dispenser
- Gillette Just Whistle
- Good News Pivot All Star 5s
- Schick Super II Ultrex Razor
- Daisy Shaver
- Schick Super II w/2 Free Blades
- Gillette World Series
- Good News Flicker Ladies Shaver
- Private Label Single Blade Disposable Razor
- Schick Super II Twin
- Wilkinson Sword Retractor
- Bic Disposable Shavers
- Personal Touch Disposable Razor 4s
- Schick Super II Pivot Razor

GUM

- Wrigley Doublemint 7s
- Wrigley Spearmint 7s
- Wrigley Juicy Fruit 7s
- Dentyne 8s
- Wrigley Doublemint PlenTPak 17s
- Wrigley Freedent Spearmint
- Wrigley Freedent Peppermint
- Wrigley Big Red Cinnamon
- Bubble Yum Wacky Fruit
- Bubble Yum Bubble Gum
- Bubblicious Wild Strawberry
- Trident Spearmint
- Chewels Sugarless Bubblegum
- Trident Cinnamon
- Wrigley Big Red Cinnamon PlenTPak
- Wrigley Spearmint PlenTPak
- Freedent PlenTPak
- Leaf Rainblo
- Wrigley Extra Sugar Free Peppermint

FILM

- Kodacolor 200 110-24
- Polaroid SX-70
- Polaroid 600 Color
- Kodacolor 100 135-24
- Kodacolor Disc 2-pack
- Kodacolor 400 135-24
- Polaroid SX-70 2-pack
- Polaroid 600 Color 2-pack
- Kodacolor Disc
- Kodacolor 400 135-36
- Kodacolor 200 110-12
- Kodacolor 200 135-24
- Kodacolor 1,000 135-24
- Kodacolor 100 135-36
- Kodacolor 200 126-24
- Kodacolor 400 110-24

MINTS

- Velamints Peppermint Sugar Free
- Life Savers Peppomint
- Certs Peppermint
- Certs Spearmint
- Lifesavers Breath Savers Sugar Free Peppermint
- Velamints Sugar Free Spearmint
- Mentos Mint Roll
- Certs Cinnamon
- Tic Tac Assorted
- Life Savers Wintergreen
- Velamints Sugar Free Wintergreen
- Life Savers Five Flavor
- Certs Wintergreen
- Life Savers Crysto
- Certs Sugar Free Peppermint
- Life Savers Butter Rum

SUNDRY

- Private Label Playing Cards
- Hoyle Bridge Cards
- Bicycle Playing Cards
- Bicycle Jumbo Cards
- Bee Poker Cards
- Bicycle Pinochle Cards
- Fuji VHS T-120
- Congress Double Deck Bridge
- Coaster Set 8-pc.
- Memorex 60-min. Audio Tape
- Polaroid VHS T-120
- Penn Court Heavy Duty Yellow Tennis Balls
- Wilson 3-pack Tennis Balls

WATCHES

- Casio
- Armitron
- Timex
- Nelsonic

COUGH DROPS

- Halls Mentholyptus Tablets
- Halls Cherry
- Halls Honey Lemon
- Halls Ice Blue
- Halls 30-pc. Mentholyptus Tablets
- Ludens Wild Cherry
- Halls Sugar Free Mentholyptus
- Ludens Menthol
- Pine Bros. Honey
- Pine Bros. Wild Cherry
- Halls Cherry Bags
- Halls Honey Lemon
- Vicks Lemon
- Private Label 4-oz. Bag

BATTERIES

- Duracell 4-AA
- Duracell 2-D
- Duracell 2-AA
- Duracell 2-C
- Duracell 9V
- Eveready Energizer 2-D
- Eveready Energizer 4-AA
- Eveready Super Heavy Duty 2-D
- Eveready Super Heavy Duty 4-AA
- Kodak Supralife 4-AA
- Rayovac Alkaline Smart Pack

TISSUES

- Private Label White 175s
- Kleenex Pocket Pack 6 16s
- Kleenex Family 250s
- Kleenex Little Travelers 70s

SUNGLASSES

- Foster Grant
- Visual Scene
- Bonneau
- Opti-Ray
- Cool-Ray Optics
- Polaroid

OTHERS

- Cigarette lighters
- Magazines newspapers
- Lip balms
- Trim nail implements
- Custom jewelry
- Novelty toys
- H&BA trial sizes
- Pocket calculators

Source: Drug Chain movement data

How products earn checkstand space

Impulse appeal	83%
Quick turnover	80
Inventory turns	77
High gross margin	73
Broad consumer appeal	63
Sales per sq. ft.	57
Display allowances	43
Reduced risk of theft	27
Value	23
Mfr. display available	23

Percentages of respondents who rated items as very important in determining which items to place at checkstands. Items named by 50%, display allowances named by 43%, reduced risk of theft named by 27%, value named by 23%, mfr. display available named by 23%.
Source: Drug Store News survey

Checkstand favorites

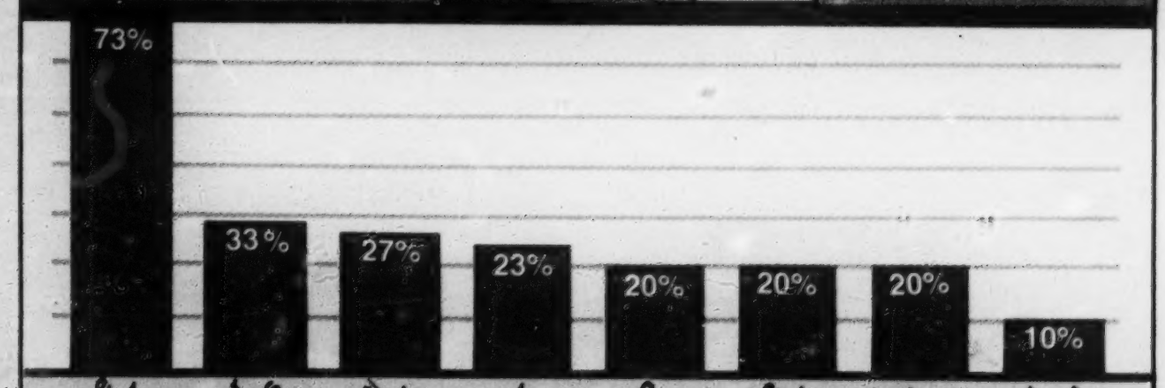
Candy/gum	43%
Film	33
Cigarettes/tobacco	30
Books/magazines	27
Cigarette lighters	20
Lip balm	20
Hot novelties	20
Batteries	17
Razors/blades	10

Percentages add up to more than 100% because of multiple responses from headquarters respondents, who named these as one of their three favorite items to display at checkstands year-round. Store level respondents separated closely, except for cigarettes/tobacco, named by 40%; batteries, named by 30%; analgesics/antacids, named by 20%; and H&BA, named by 10%.
Source: Drug Store News survey

Checkstand favorites

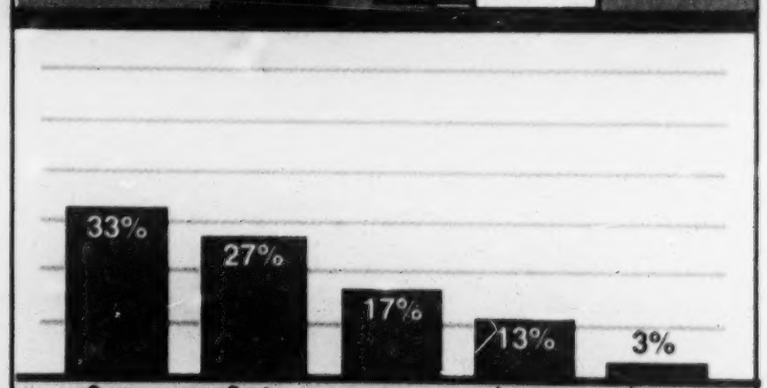
Candy/gum	83%
Cigarettes	80
Cigarette lighters	80
Film	73
Lip balm	67
Batteries	57
Key rings	47
Magazines	47
Razor blades	47
Nail clippers	43

Many levels work together to merchandise checkstands



Percentages of drug chain headquarters respondents identifying job title as being involved in merchandising checkstands. Percentages add up to more than 100% because of multiple responses.
Source: Drug Store News survey

But primary responsibility rests with



Percent of headquarters respondents citing this job title as being primarily responsible for space allocation decisions at checkstands.
Source: Drug Store News survey

Checkstand merchandising

TRENDS

Store managers mainly call the shots on endcaps

While managers from drug chain headquarters and stores disagree sometimes on who among them controls checkstands and the products that sell there, they definitely agree on endcaps.

According to responses from both retail segments, endcaps are clearly store manager turf.

Store managers, in fact, were named by 1 out of 2 store-level respondents and 1 in 3 headquarters executives as being primarily responsible for endcap decisions. In both instances, store managers had clearcut recognition as the key influence.

Merchandise managers were next most highly regarded in this area, named by 1 in 5 at headquarters and 1 in 10 at store level.

Presidents, vp-operations, district and regional managers and buyers were each named far less frequently as holding the main responsibility for endcap merchandising.

Approach reflects products

The decentralized approach evident in these survey findings reflects the different nature of many endcap products—and the different retailer exploitation of endcaps—from those that might be sold at checkstands.

Endcaps are more likely to include health & beauty aids, seasonal products that could vary by region, consumables and other merchandise whose sales and profits success would swing with the needs of the local market. Because movement could differ greatly by store location, the industry leaves endcap merchandising to the hands-on decision maker on the scene: the store manager.

When store managers were asked what products they would most likely merchandise on endcaps, 33% said candy. Health & beauty aids and seasonal products both showed strongly, named by 1 in 4. Cookies and snacks, and batteries, followed next.

Preferences differ

Not surprisingly, these preferences differ from those of headquarters respondents. Theirs are shown in a chart on this page.

Who makes endcap decisions?

Store manager	33%
Merchandise manager	20
VP Operations	17
District/Regional Manager	7
Buyer	7

Source: *Drug Store News* survey, headquarters respondents

Products most frequently endcapped

Health and beauty aids	40%
Candy	33
Gum	23
Batteries	13
Seasonal/holiday items	13
Cookies/snacks	10
Pens/pencils	10
School supplies	7
Cough syrup/medicine	7
Sunglasses	7
Toiletries	7

Source: *Drug Store News* survey, headquarters respondents

About the study

The 1987 *Drug Store News* Checkstand Merchandising Study is based on interviews with 60 merchandising, operations and store-level executives from among the Top 100 drug chains. Thirty were headquarters interviews and 30 store-level.

People interviewed are directly involved in merchandising the main checkstand areas for their retail chains.

Telephone interviews were conducted during January and February 1987 by professional interviewers under the direct supervision of Lebhar-Friedman Research.

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Congress to probe climbing Rx drug prices

WASHINGTON — Citing "out-of-control" price increases for prescription drugs, Congressional critics of the pharmaceutical industry are planning a new series of investigations into drug store and Rx manufacturer pricing practices.

Rep. Henry Waxman's (D-Calif.) House Health Subcommittee has already announced hearings on rising drug costs this season, and at presstime, at least two other Congressional panels were showing interest in the prescription price issue.

Behind the upsurge in Capitol Hill concern: last year's sharp, near double-digit rise in the cost of prescription medicines.

Drug price increases

According to the government's closely watched Consumer Price Index, Rx drug prices at the retail level climbed 9% during 1986, while the prices of certain key Rx subcategories posted even higher inflation rates.

The average price of circulatory and diuretic drugs, for example, rose 10.8% last year, while prices for Rx tranquilizers and sedatives jumped 13.2%.

Underscoring these stiff prescription drug price increases: the relatively modest inflation rate for other goods and services during 1987.

The overall cost of medical care in the United States climbed 7.7% last year, while nonprescription drug prices rose 5% and the total CPI for all products and services sold in '86 increased only 1.1%—the smallest overall inflation rate in decades.

Moreover, the latest figures from the government's Bureau of Labor Statistics indicate that Rx drug inflation is still on the rise.

According to the latest CPI data, prescription drug prices rose at an annual rate of 4.8% in September of last year, the inflation pace quickened to 7.2% in November, and it reached an annual rate of nearly 11% in December.

According to drug store industry execs, the blame for this sharp upturn in prescription drug prices belongs to pharmaceutical manufacturers.

Officials at Rite Aid, for example, told *Drug Store News* they have observed particularly stiff price hikes from suppliers in recent months, with many individual Rx products rising more than 10%.

Similarly, officials at the National Association of Retail Druggists have reported that independent pharmacists are also experiencing huge increases in drug prices from suppliers.

Although a NARD spokesman refused to finger manufacturers publicly as the source of the recent price upsurge, the association has in the past described manufacturer pricing practices as "a major factor in rising prescription drug costs."

A closer examination of the new government price figures lends support to that view.

While retail Rx prices (as measured by the CPI) rose 9% last year, manufacturer Rx drug prices (reflected in the government's Producer Price Index) climbed by an even more disturbing 9.8% in 1987.

Absorbed some of hikes

If anything, those figures suggest that rather than causing the recent rash of Rx drug inflation, drug stores absorbed some of last year's manufacturer price hikes in order to soften the impact on consumers.

For their part, representatives of the nation's brand-name pharmaceutical manufacturers attributed these stiff price increases to a leveling off in consumer demand for Rx products, coupled with sharp rises in the cost of new drug research and development.

According to officials at the Pharmaceutical Manufacturers Association, the total number of prescriptions written in the United States has risen only 1.5% during the past 10 years, while industry R&D costs have skyrocketed.

Last year, for example, drug manufacturers spent 15¢ out of every sales dollar on research and development, in contrast to only 12¢ in 1980, a PMA spokesman said.

Moreover, total R&D spending by pharmaceutical firms increased even faster than prices last year—a solid 12% rise from $4.1 billion to a record $4.6 billion in '86.

Other factors

But these PMA statistics explain only part of the current drug price inflation.

While the total number of prescriptions written may have shown little increase over the past decade, this is because average Rx sizes have grown substantially during that period. As a result, total consumer demand for Rx drugs is up considerably more than 1.5% since the mid-1970's.

Additionally, only about 20% of last year's manufacturer drug price increase can be attributed to the extra $500 million spent on R&D by the industry.

Other factors contributing to the current rate of Rx price inflation include the effects of the 1984 "Waxman/Hatch" drug law amendments.

By extending the patent life of some widely prescribed Rx products, that legislation may have invited pharmaceutical manufacturers to raise prices more rapidly than they would have otherwise.

Generic competition

Ironically, the other provision of that law—changes in Food and Drug Administration drug approval practices designed to speed the introduction of cheaper generic versions—may also be partially responsible for the current rash of manufacturer price increases.

Faced with the likelihood of stiffer price competition from generics, some brand-name pharmaceutical makers may be jacking up prices excessively on products still covered by patents.

In addition to Waxman's investigation, the Labor and Human Resources Committee has expressed interest in holding drug price hearings this session.

Manufacturer drug prices: Up nearly 10% in 1986

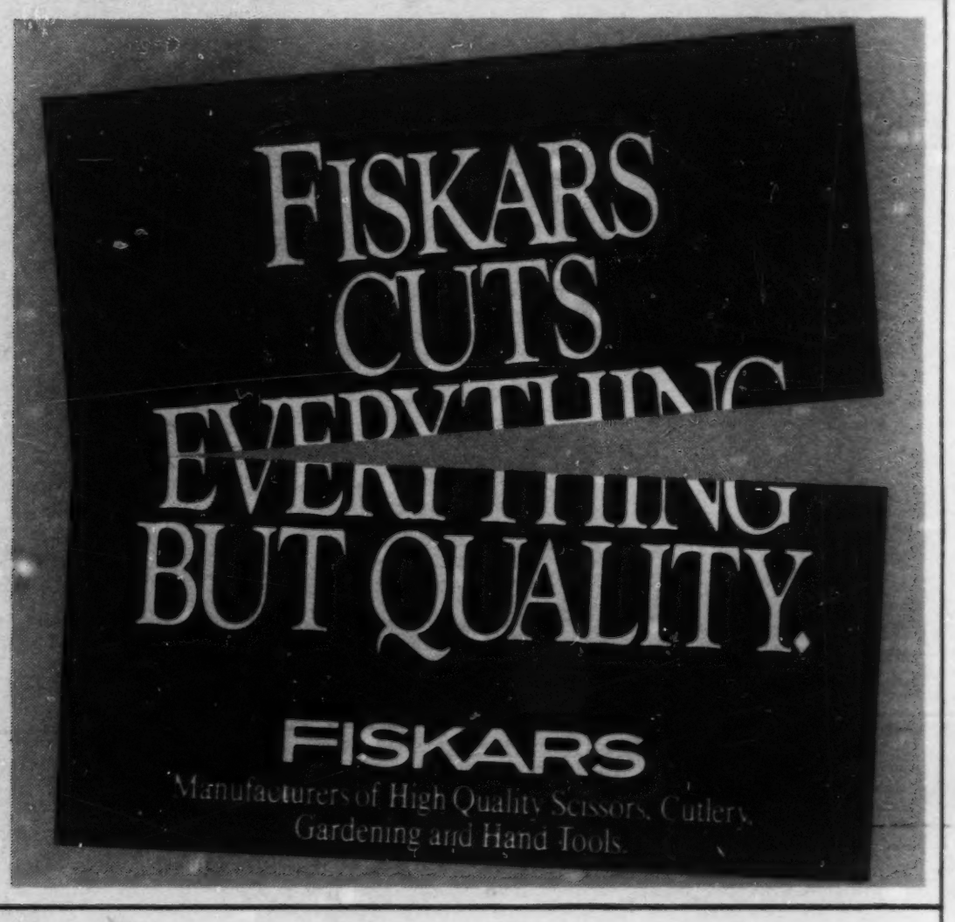
PPI[1] for:	
All OTC drugs	+ 6.2%
Rx drugs	+ 9.8%
Antispasmodics	+11.8%
Cardiovascular drugs	+10.6%
Anti-infectives	+ 1.7%
Diuretics	+ 8.3%
Hormones	+ 2.4%
Rx cough preparations	+ 8.8%
Rx vitamins	+ 7.3%
Anticoagulants	− 4.0%
Contraceptives	+13.3%

[1]Producer Price Index for 1986
Source: U.S. Department of Labor, Bureau of Labor Statistics

Retail Rx drug prices: Up 9% in 1986

CPI[1] for:	
Medical care	+ 7.7%
All OTC drugs[2]	+ 5.0%
Rx drugs	+ 9.0%
Tranquilizers and sedatives	+13.2%
Anti-infectives	+ 6.0%
Circulatories and diuretics	+10.8%
Hormones, diabetic drugs, biologicals and Rx medical supplies	+ 7.8%
Pain and symptom-control drugs	+ 7.6%
Supplements, cough and cold preparations and respiratory agents	+ 8.7%

[1]Consumer Price Index for 1986
[2]Internal and respiratory
Source: U.S. Department of Labor, Bureau of Labor Statistics



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- Carton and Package Merchandising programs.
- Permanent Counter and Floor Display programs for packages and cartons.
- Temporary Package and Carton display programs.

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401 N. Main Street
Winston-Salem, NC 27102

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C.E. Lesson: Pharmacist and cancer patient—p. IP17

News highlight: NACDS polygraph plan—p. 4

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DRUG STORE NEWS

Vol. 9/No. 7 **Serving chains, wholesalers and high-volume independents for 58 years** Published by Lebhar-Friedman Inc. March 30, 1987

Pacific Lighting retail holdings

Thrifty	571	25
Thrifty Junior	34	25
Big 5	94	Plan to open a total of 20 sporting goods stores
Michigan Sporting Goods	24	
Gart Bros.	16	

Also, by 1990, the reconfiguring of the Thrifty stores to Perfectos is expected to be completed.

Sources: Pacific Lighting and Thrifty Corp.

Haft SGC takeover bid: 'For real' or quick profit?

Where the offer stands

Supermarkets General Corp. at presstime was weighing a $1.62 billion takeover offer from Dart Group Corp., but executives of the powerful supermarket and combo store chain have reportedly expressed a strong desire to keep the company independent and are exploring other options simultaneously. Those options include seeking another "white knight" suitor, taking the company private, buying back a block of stock and making an acquisition of their own.

War chest available

Dart Group made the unsolicited offer to buy SGC for $41.75 a share on March 6, in a letter sent to SGC chairman Leonard Lieberman from Dart chairman Herbert Haft and president Robert Haft. The Hafts termed the offer a "friendly" one and said in the letter that Dart had already arranged financing for the

See **Offer,** *page 61*

By Dave Vaczek

WOODBRIDGE, N.J. — What are the Hafts after this time?

Dart Group's $1.62 billion offer for Supermarkets General looks to many like a rerun of its quick-profit investment plays on other food and drug chain targets.

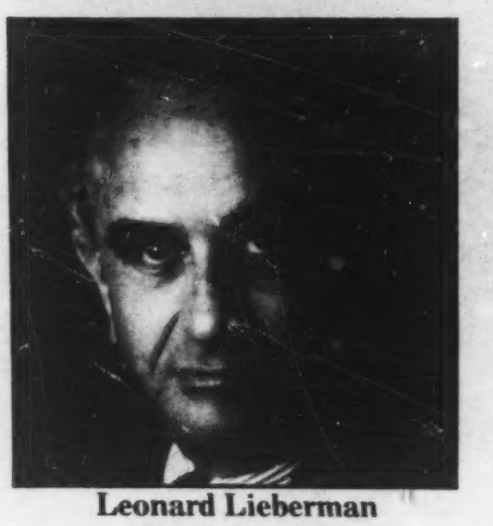
But other industry experts disagree. They feel the Hafts have finally identified the "pearl" that will allow them to run a major league company.

Dart put the $4 billion (annual sales) food and drug chain "in play" among potential investors when it offered $41.75 a share, about 20% more than the $35.50 the shares were selling for on Wall Street. The Hafts offered SGC management what they termed a friendly "business combination."

Analysts call bid fair

Analysts generally characterized the Hafts' bid as fair for SGC, which some considered undervalued, along with other supermarket companies. SGC traded as low as $23 a share in January, when rumors of a Haft raid first surfaced.

See **Hafts,** *page 61*



Leonard Lieberman

One analyst believes the Hafts must induce Leonard Lieberman and other top officers to stay and manage the company by offering them equity positions.

Parent's plan bodes well for Thrifty growth

By Pamela Krein

LOS ANGELES — The payoff for becoming a subsidiary of Pacific Lighting may have just improved for Thrifty Corp.

Not only have Thrifty's new store opening plans dramatically increased since the company was acquired last August by Pacific Lighting, but now the chain may see even greater growth as the parent announces plans to sell its real estate division—valued by analysts to be worth at least $300 million.

Although Pacific Lighting is not speculating where exactly the additional funds will go, industry observers expect some of the money to make it into the hands of Thrifty.

Thrifty originally anticipated opening 50 drug stores during 1987—25 conventional drug and discount stores and 25 junior stores. This target, however, is already expected to be "exceeded by a considerable margin" for the junior stores, according to Anthony Stypinsky, Thrifty vice president/director of maintenance and construction.

The availability of closed stores—such as Gemco, Zody's, older Ralphs and Safeway stores—has widened the real estate opportunities for growth in many markets, Stypinsky explained. "In the last two years, many more of

See **Thrifty,** *page 61*

Mastrian back at Gray to free Bellini to seek $

CLEVELAND — In the latest of a continuing series of management shuffles, Sherwin-Williams has named paint division executive Jim Mastrian to again replace Carl Bellini as acting president of its Gray Drug Fair division.

The appointment of Mastrian is a temporary one, a Sherwin-Williams spokesman stressed, and is designed to give former Gray president Carl Bellini more time to raise the estimated $150 million to $200 million he will need to purchase Gray's 358 stores through a leveraged buyout.

Accommodates Bellini

"Sherwin-Williams reached a mutual agreement with Mr. Bellini that he step aside for the time being, in favor of Mr. Mastrian," the spokesman said. "[Bellini] is going to spend full-time working on his financing package for Gray."

See **Bellini,** *page 61*

Perry applies controls to rebuild net profits

By Jim Frederick

TROY, Mich. — Through stringent cost controls and slowed expansion, Perry Drug Stores expects to regain its earnings momentum in the latter part of fiscal 1987, chairman Jack Robinson told shareholders at the annual meeting here on March 17.

In 1986 and the first quarter of fiscal 1987, Robinson said, record sales and increases in both market share and same-store sales were offset by rising costs and shrinking gross profit margins in the drug stores. "Our expenditures increased dramatically," Robinson said. "These expenditures have included liability insurance, health benefits, interest expenditures related to our acquisitions and overall operating expenses."

Margin slippage

Margins also came under severe pressure. "The margins slipped because of the intense competitive environment in third-party prescriptions and price increases, which, because of contractual relationships, we could not reflect in our price structure," Robinson told shareholders.

"Some margin slippage also is attributable to a remerchandising program we instituted last year, a program designed to have our drug stores carry a more traditional assortment of products. We believe this strategy is essential if we are to respond to today's consumer demands and the drug store shopping habits of the future," the chairman added.

Following the annual meeting, Mickey Kole, Drug Store Division president, told *Drug Store News* the remerchandising process was ongoing as the chain took a more marketing-oriented approach to its drug store customer, who is predominantly female.

"Perry is going to be a very

See **Perry,** *page 61*

'We want to . . . integrate, consolidate, renovate and upgrade what we have. . . .'

—Jack Robinson
chairman, Perry Drug Stores

LATE NEWS

- WOONSOCKET, R.I. — CVS, which stands to save up to $300,000 next year from repeal of a local wholesale inventory tax, said it will hire 300 to 500 new office workers to staff offices that will be enlarged in this blue-collar city over the next few years.
- PITTSBURGH — Thrift Drug has expanded Trust Health Care, its durable medical equipment delivery and installation program, from the Atlanta region into stores in Pennsylvania, Delaware, Maryland, West Virginia and New Jersey. DME is supplied by an outside vendor.
- ROCKY RIVER, Ohio — American Financial Corp. has completed the sale of its 44% controlling interest in Fisher Foods to a consortium of local wholesale and supermarket companies, including American Seaway Foods and Stop and Shop Companies.

In this issue: Inside Pharmacy

- Pharmacy in 21st century
- Drugs of '86
- Speak Out on condom ads

NEWS IN BRIEF

Fantle reported up for Fay's board post

LIVERPOOL, N.Y. — Sheldon "Bud" Fantle, former Peoples chairman, president and ceo, was expected at presstime to be elected to Fay's Drug Board of Directors this month to fill a vacancy. He would then stand for election at the chain's annual meeting in May to a three-year term.

The departures of Fay's president Dan Herrmann and cfo Peter Rhodes earlier this year left vacancies on the board.

Fantle retired from Peoples in January after 40 years with the chain.

Kerr Drug opens 70th store

RALEIGH, N.C. — Kerr Drug opened its 70th drug store here March 1 in Greystone Village, a new upscale residential development.

The store has Kerr's standard 9,600-sq.-ft. format (8,000-sq.-ft. selling). It includes a middle promotional aisle and a year-round gift section.

The chain leads in stores in the four-county metro market with 34 units. Having opened its first store in 1950, Kerr plans to roll out 10 to 12 in 1987, as it aims for 1987 fiscal year sales (ended June 30) of $120 million.

Malone & Hyde exec Hackney dies

MEMPHIS — Ray Hackney, R.Ph., senior vp-pharmacy for Malone & Hyde Drug Stores, died of cancer in March at the age of 52.

A graduate of the University of Tennessee College of Pharmacy, Hackney was the chain's first practicing pharmacist and was instrumental in forming Super D in 1966.

He became the chain's first director of pharmacy in 1971 and the first Super D franchise holder in 1974. Early in 1978, he returned to chain headquarters as vp-pharmacy. He was a member of the Pharmacy Affairs Committee of the National Association of Chain Drug Stores.

The family has requested that any memorials be sent to the American Cancer Society. Malone & Hyde is in the process of establishing a Ray Hackney Pharmacy Scholarship Fund.

Wholesaler William Walker Jr. dies

BIRMINGHAM, Ala. — William Watson Walker Jr., general manager of the Walker Drug wholesaling company based here, died Feb. 21 after an extended illness. He was 75.

Walker had served as general manager since 1945, 15 years after his father, W. W. Walker Sr., founded the business. Active in company affairs until a few weeks before his death, he led the company to prominence in the state, serving 750 stores. Under his leadership, Walker Drug grew to become the largest independent wholesaler in the Southeast.

He was a native of this city. He graduated from the University of Tennessee School of Pharmacy.

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Vol. 9, No. 7 March 30, 1987

Disposable cameras debut to mixed retailer reviews

Can disposable cameras follow in the successful footsteps of the disposable razor?

Although leading manufacturers—Kodak and Fuji—think consumers are ready for the one-time-use cameras, most drug store chains are taking a wait-and-see attitude, according to a nationwide survey conducted by *Drug Store News*.

Recently introduced, the disposable cameras are viewed by Fuji and Kodak as an ideal camera for people who forget their camera or who don't want to take a good camera to a chancy location—such as the beach.

Processing of the cameras' film may also supply retailers with added dollars, according to the manufacturers, but for most retailers it is still too early to predict.

The 35mm Fujicolor Quick Snap will be available in April and is expected to retail under $10, while the Kodak Fling—using 110 film—will be available this summer and is expected to retail at $6.95. Both manufacturers tested a 110 disposable camera in Japan last year, where the products were well received.

Merchandising Spotlight

Drug chains skeptical

Most drug stores, however, are still somewhat skeptical of the disposable cameras' long-lasting viability and marketability. Both manufacturers admit there will be little advertising and that the best places for the cameras will be in resort and vacation spots.

However, the market for the disposables may still only be at the actual site of a tourist attraction and not necessarily in the surrounding area.

In Hawaii, Crafts' Drug had just recently heard of the cameras and is undecided as to whether the product will be a popular seller. According to G. Robert Craft, president/general manager/buyer, he may try the cameras,"but I'd have great reservations about it."

Best Buy Drugs in West Palm Beach, Fla., predicts the cameras could be a "very viable item, because people have a tendency to forget things in haste," according to buyer Petty Schaudenecker. Although Schaudenecker could

See **Cameras,** *p. 61*

Retailers aren't decided yet how they'll respond to a fresh idea in photo, disposable cameras. The 110 format Kodak Fling (left) will retail below $7, and the 35mm Fuji Quick Snap at less than $10.

Longs' new prototype store focuses on appeal to women

PLEASANTON, Calif. — Longs Drug Stores plans to cater more to female customers with its new prototype store slated for this market in September. According to a survey conducted by the company, 80% of their customers are women.

Using a mock-up of a store interior, Longs is experimenting with using softer pastel colors to replace its browns and burnt oranges. The wood backing currently being used for department signage may also go under the new plan, explained Longs project manager Al Arrigoni at a recent SPECS (Store, Planning, Equipment, Construction Services) seminar here hosted by *Chain Store Age Executive*.

Longs is looking at doing "major remodeling of our interiors," noted Arrigoni, while concentrating on five major issues: the importance of the pharmacy; keeping a clean image; avoiding trendiness; appealing to the female customer; and keeping an eye on costs.

Al Arrigoni

New interior direction

Arrigoni said the company is still working on the details for the prototype, since "we have some controversy within our organization" about the direction of the new interiors. The pastel colors may be acceptable for some sections of the store, he said, but there has been some concern by the district managers as to whether these colors would be appropriate in more masculine areas, such as liquor.

Although the new prototype will offer some variations, Longs plans to keep its basic store layout the same. However, the company will work toward adapting a more unifying band above the wall fixtures—which currently varies in height throughout the store. Other changes call for maximizing display space and reducing the photo service counter.

Arrigoni said merchandise "that doesn't necessarily need service" will be pulled out of the photo counter and merchandised on walls or gondolas, allowing "the customer better access."

Once made final, the prototype will be used in Longs' new stores, but because of the company's decentralization format, use of the new interiors by older stores will be evaluated on an individual basis.

The prototype represents one of 12 stores the company is opening this year and the only one to be outfitted with the newly designed interior. The company currently operates 222 stores from its Walnut Creek, Calif., headquarters.

Tenn. probes Medicaid fraud

NASHVILLE — Twenty-three Tennessee pharmacists could face 12 years in prison, $6,000 in fines and possible revocation of their licenses from the Board of Pharmacy if convicted as a result of a statewide sting operation investigating Medicaid fraud.

An undercover operation conducted by the Tennessee Bureau of Investigation of approximately 100 drug stores in middle and eastern Tennessee uncovered 23 pharmacies substituting generics for branded drugs without the physician's permission and then billing Medicaid for the higher-priced drug, according to investigators.

Ronald Graham, R.Ph., director of pharmacy services for the Tennessee Medicaid program, said the investigations are ongoing, with an expected sweep of the western portion of the state.

TRENDS

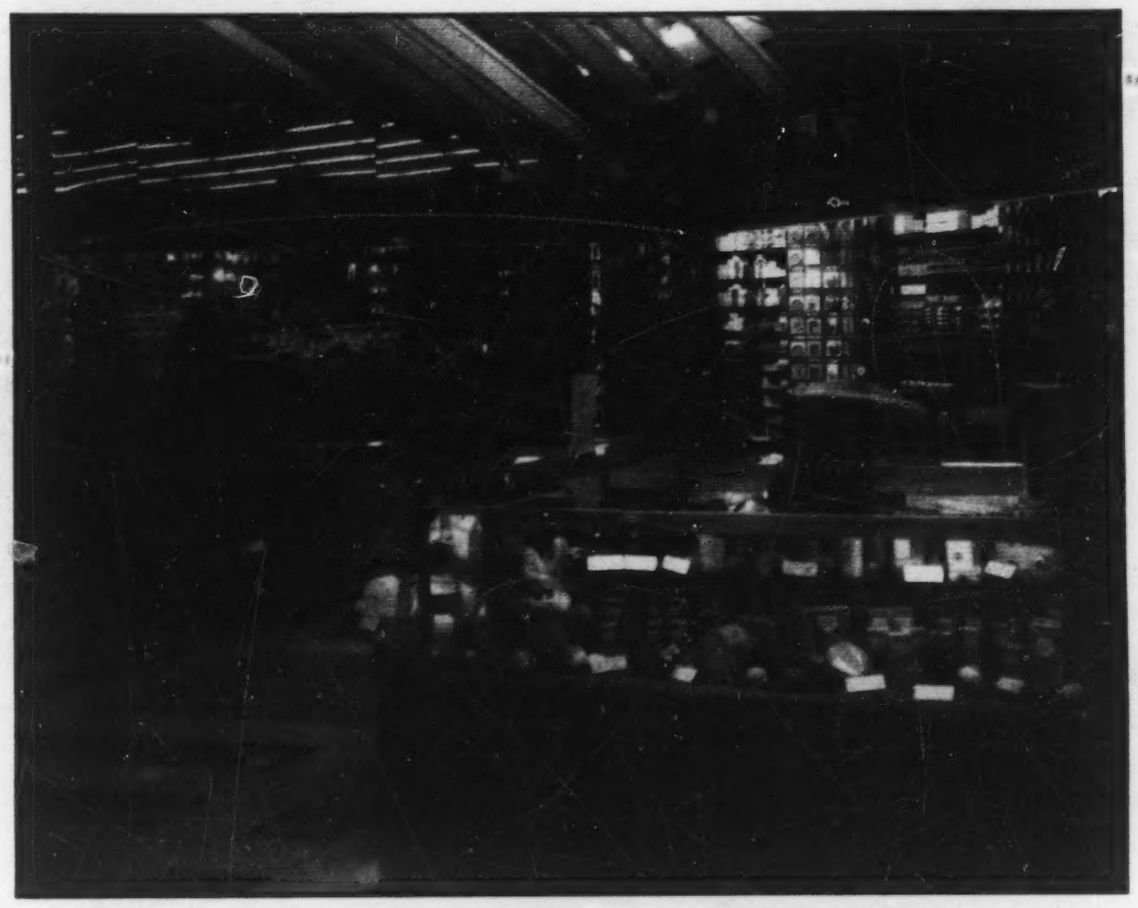
Buyers scent sales rise in '87 fragrance debuts

Mass market fragrance sales, which were flat in 1986, flat last Christmas and flat overall for the past three years, may perk up in 1987 and 1988.

For the first time in several years, a significant number of new products are about to hit the market, and buyers and manufacturers alike are anticipating at least the possibility of some real unit growth, even though it may be minimal.

According to A. C. Nielsen, the women's mass fragrance market has been down in unit sales for the past two years, while the men's mass segment has been down for the past three years.

But at this writing, about four new major women's mass market fragrances are in the process of being launched, two teen mass fragrances were recently introduced to the market and one is in test, and three major men's mass prestige lines and one upscale line are debuting. What's more, two relaunchings of classic women's mass prestige brands are under way and two major launches are in progress for the upscale women's specialty and department store market.



Drug store chains are trying to court the fragrance shopper by giving a more upscale 'department-store' look to their fragrance departments.

Line extensions

There are also several interesting line extensions poised to hit the mass market, including Revlon's addition of a musk fragrance to its Chaz line and MEM's introduction of a new light formulation to its Love's teenage fragrance line and its Heaven Sent young adult line.

In 1986, there was also the very successful launch of Lady Stetson in the women's mass market segment, as well as the more qualified launch successes of Prince Matchabelli's Masquerade mass prestige women's fragrance and Jovan's introduction of its new line of Adidas men's fragrances.

Retailers, manufacturers and analysts who follow the industry say that all this new activity may be just what the mass prestige fragrance category needs to revitalize sales.

New products key

"The vitality in the market is always due to new products," said Lorraine Mahoney, senior vp-new fragrances for Charles of the Ritz, which is launching Xi'a Xi'ang this year.

"The life cycles of the classic brands are shortening," she pointed out. "And that's partly because people like to try new things. Every time a manufacturer brings out a new good classic fragrance, it will attract a new user base."

"We're in a slump now, and we have been in a slump for a while," said Scott Kole, vp-training for Jacqueline Cochran, which has two launches set for 1987: Bowling Green, an upscale line of men's fragrances, and a new bath and body fragrance line for l'Air du Temps.

According to Kole, sales of overall fragrances have been soft because "boredom has been taking over."

"The few people who are still bringing out innovative products and who are doing creative marketing, like Estee Lauder, are doing fine," he said. "The public today doesn't want to hear claims for something ordinary. They want to hear advanced claims for exciting new products."

Men's fragrance trends

Perhaps because prestige brand manufacturers have been expanding their upscale lines of men's designer fragrances and promoting them aggressively to the higher-end user, the overall men's fragrance segment is showing stronger growth in department stores than in most drug stores.

At a recent Fragrance Foundation seminar, buyers for several major department store chains were reporting that at Christmas, their sales in men's fragrances were up about 30% over last year. Walgreens' Bill Geary was also reporting increases in the 20% range.

However, Walgreens' success with the fragrance segment of men's toiletries seems to be the exception rather than the rule in the chain drug store industry.

In chain drug stores

Most drug store fragrance buyers say that while certain brands in the mass prestige segment, like Chaps and Stetson, perform well for them, the men's fragrance segment overall has not yet achieved what they think is its full potential in their stores. Growth rates, many buyers say, are still flat in unit sales and are only up about 4%-8% in dollar sales.

Some buyers believe this is partly because most manufacturers haven't been innovative enough with marketing men's fragrances and partly because chain drug stores do not give the fragrance segment of men's toiletries as much retail space and merchandising pizzazz as do chains like Bloomingdale's or Macy's or even J. C. Penney and Sears.

In the mass men's fragrance market, too, there has been less new product activity to spark sales. Last year, there was only one major launch in the men's mass prestige fragrance category: Jovan's introduction of Adidas for Men.

And so far, the Adidas line, like the men's fragrance segment as a whole, has been doing much better in department stores than in drug stores.

At Eckerd Drug, corporate merchandise manager Karen Durham reported that at Christmas, Adidas performed "disappointingly" in Eckerd stores. But she added that this may have been because Eckerd only stocked two sku's, in contrast with Walgreens, which carried most of the line.

At Walgreens, where the brand was merchandised as a line rather than just individual sku's, sales were much better. Bill Geary, Walgreens' divisional merchandising manager for fashion, said the Adidas line did well in his stores and had strong promotional backing from Jovan.

Some retailers and manufacturers are taking heart from Walgreens' overall experience with men's fragrances.

One buyer said the key to unlocking the potential of the men's fragrance segment is for the manufacturer and retailer to work together to build sales.

Potential is there

Others say the men's segment should be the next growth area in chain drug stores because this is where the opportunity lies to create new users and increase the frequency of use.

Dan Deegan, Beecham's senior marketing vp, like many other marketers in the fragrance industry, believes the men's segment logically has to grow faster now than the women's segment.

"The men's segment is evolving," he said. "It's a slow, steady process, but it's building.

"Women, on the other hand, had their heyday in the 1970's and early 1980's. Their glory days are behind them now. It's harder to get more usage. And they're not brand loyal. Something new comes out and they switch and try it.

See ***Scent,*** *page 12*

Fragrance sales overview

According to the most recent Nielsen estimates, mass market sales of men's fragrances grew faster in 1986 than mass market women's fragrances did.

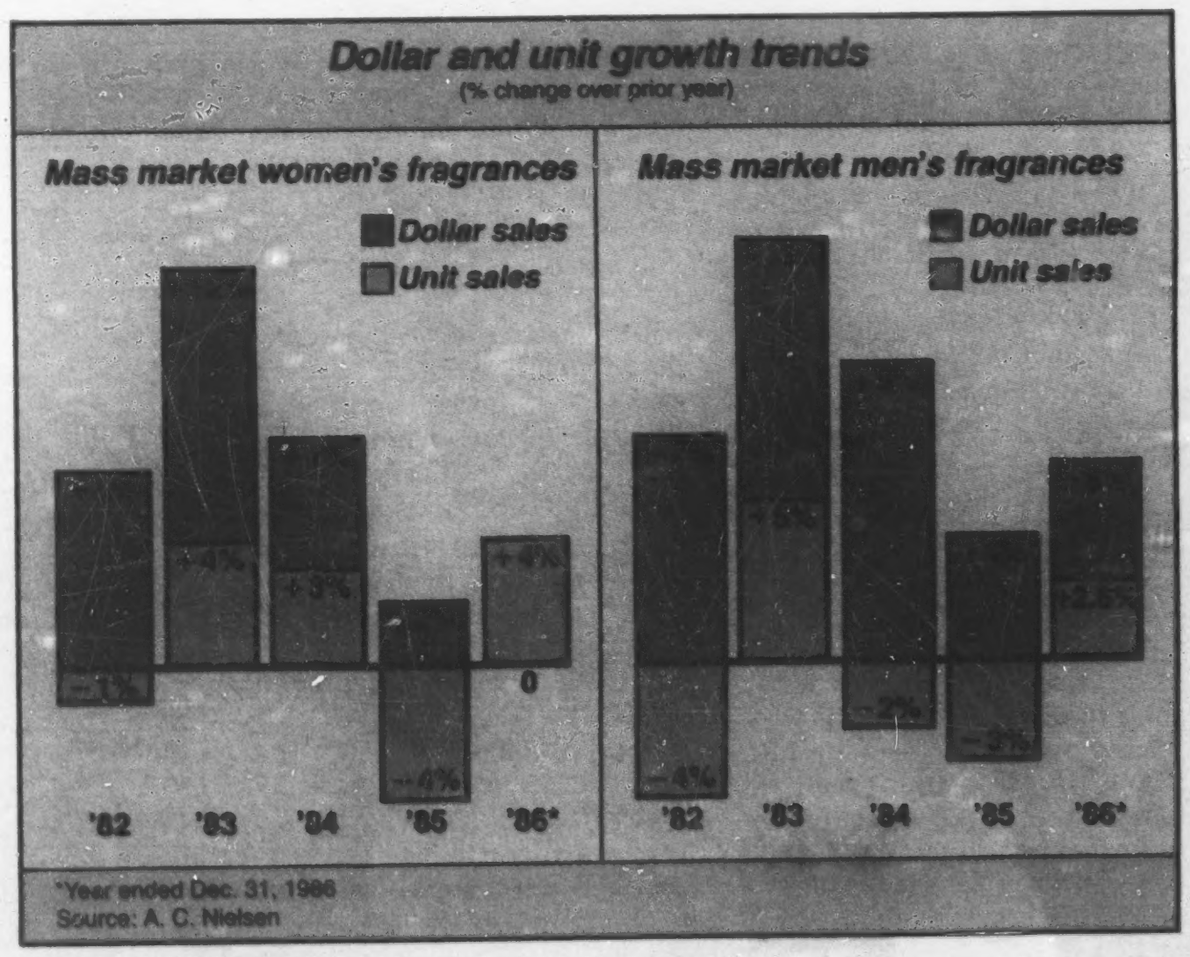
Mass market sales of men's fragrances for 1986 were up 6% to about $500 million. In 1985, sales were up 4% to $471 million.

Sales flattened

However, Nielsen reports that unit sales were almost flat for 1986. The growth in the men's segment, therefore, was more attributable to price increases than to real category growth. Nielsen says unit sales of mass market men's fragrances were up just 2.6% in 1986 and down 3% for 1985.

In the women's segment, sales for 1986 were flat at $767.7 million. Unit growth, however, was 4% for the same period. Total 1985 sales were up only 2% in dollars to $769 million, while units were down 4%.

Nielsen's estimates are for all fragrances sold in drug and mass merchandise outlets, but do not include food or department store sales.



TRENDS

Fragrance preview

Ad dollars bolster women's scent introductions

In the women's segment, the 1987 launches in the mass prestige market will be Cosmair's Glorious, which will also be available to department stores and better mass merchandise stores; Revlon's Intimate, which will be a completely new mass prestige line aimed at the 18- to 34-year-old woman rather than at the teenagers who made last year's Intimate Musk popular; Charles of the Ritz's Xi'a Xi'ang; and Max Factor's Le Jardin d'Amour.

Faberge will be supporting its 1986 relaunch of Tigress, and Beecham will be doing the same for its recent relaunch of Jungle Gardenia. Prince Matchabelli will be continuing its television and print support for Masquerade, plus distributing some four million scented inserts in magazines during the first half of 1987.

Mass prestige brands of men's fragrances increase share

	Share of dollars		Share of units	
	1985	1986	1985	1986
Mass prestige brands ($8-$20 price range)	55%	59%	33%	35%
Value-priced brands ($2.50-$7.50)	45	41	67	65

Source: Manufacturer estimates

More ad money

Because most fragrance manufacturers tend to believe the best way to grow in the women's segment is to steal share from weaker brands, there will be a lot of advertising money spent in 1987 to support the new launches as well as to protect the share of dominant brands like Vanderbilt, Lady Stetson, Charlie and Jontue.

Cosmair, so far, is committed to spending the most money in the category. Cosmair's management says it will spend a full $13 million to support the launch of Glorious, plus another $7 million to keep Vanderbilt in its No. 1 dollar share position.

David Schulte, Cosmair's general manager of retail fragrance sales, said he believes that spending $20 million to support two brands "will have to generate some new excitement and interest in the women's category."

Revlon also says it will spend at least 45% more on advertising in 1987. One source said "a substantial amount" has been allocated to support the launch of Intimate, while additional millions have been slotted to build and protect share for Revlon's two most successful women's fragrances, Charlie and Jontue.

Fringe brands

At Faberge, executive marketing vp Mark Goldstein thinks because the women's fragrance segment is at maturity, it will be difficult to squeeze out "real growth" for the segment overall. However, he does believe that the best supported brands will be able to steal shares from older fringe brands like Geminesse, Tabu and Chimere.

"More and more, you're going to see the stable brands—like Vanderbilt, Charlie, Enjoli, Le Jardin—carrying the bulk of the volume. As the new products emerge as successes, you're going to see more fringe brands drop out."

Mary Manning, director of new product development at Coty, agrees with Goldstein, but says that in 1987 and 1988, the women's fragrance segment may at least see some "minimal growth" in real sales.

Shorter product life

"I think, basically, the new product activity will cause people to switch brands rather than to increase consumption or bring many new users into the category," she said. "There's no doubt that you're seeing a much shorter product life cycle these days.

"However, Emeraude and other classic brands did very well overall in 1986, and I think the classics will continue to keep a strong core brand-loyal following."

At Beecham Cosmetics, Val Marron, brand manager for Jungle Gardenia, said that while there may not be a dramatic leap in sales in 1987 or 1988, there may be a "smaller takeoff in women's fragrances."

"No manufacturer of mass fragrances is going to spend $15 million on a brand like they do with Obsession," she said, "but you'll see more manufacturers spending where it counts directly to the points that they most want to communicate to their target audience."

"The successful brands in 1987," Goldstein sums up, "will be the ones that find a unique positioning, the ones that promise the consumer something new and different.

"But as far as real growth goes, I think that the $2.5 billion fragrance industry is close to the saturation point. We're like the hamburger fast food industry now. It's like McDonald's vs. Burger King. The question to answer is who will gain the most," he said.

"I think in the mass market, you may see a return to higher price points in 1987. Except for building trial, fragrance is not a price-driven category, and in 1987 most of the new launches are for classic style brands like Intimate and Glorious.

"Nineteen eighty-seven may be the year that we see the element of class really start to emerge as an important issue in the mass distribution stores."

Teens fickle on scents

In the teenage girls' segment, Revlon will be supporting its 1986 Intimate Musk fragrance and Factor will be trying to get Magic Beat up to tempo.

Colgate, which is testing a teen fragrance called Maniac, may or may not jump into the fray. Their marketing department says it's too soon to say what will happen with Maniac.

Buyers say that musk, which appeals mainly to teenagers, along with floral scents and bath and body fragrances, are the strongest growth segments now in women's fragrances. They worry, however, that teen users are too fickle to create long-term, "classic" best sellers.

Mark Goldstein, executive vp-marketing at Faberge, calls the prime user of musk, the 13-21 age group, "generically loyal." But he adds that "a lot of brand-switching" best characterizes users in this segment.

'87 scent sales budding

Continued from page 11

"Men are more brand loyal and once you get them to try a brand, if they like it, they'll stay with it," Deegan added.

Ken Freeman, vp-marketing at the Shulton Group, also believes the men's segment will generate stronger growth in 1987, partly because of all the new product activity, but also because he thinks men are starting to use a greater variety of fragrances.

Several years ago, Freeman said, men tended to use one fragrance for all occasions.

Growth segments

But today, "men are starting to use a wardrobe of fragrances, just as women do," he said. "The trend, too, is for men to want a more sophisticated fragrance for at least some occasions, which is one reason why we're seeing the mass prestige brands like Chaps and Stetson growing faster than the value priced brands like Old Spice or English Leather."

Retailers also agree that in the last five years or so, the growth segments in the men's category have been the mass prestige brands—Chaps, Stetson, Jovan Musk and Chaz.

Colognes today tend to outsell the lower priced aftershaves, they add, and musk sales are growing at rates of between 15% and 20% a year, which is good performance in a flat segment.

Many of the new lines being introduced this year in the men's segment—Cochran's Bowling Green, Houbigant's Sportsman, Shulton's Night Spice and Colonia's Dallas—are positioned to appeal to the type of user who supports either brands like Chaps and Stetson or the more upscale brands like Pierre Cardin and Polo.

"Stetson and Chaps are the clear-cut leaders in the prestige mass men's fragrance," said Colonia's president, Larry Pesin, "so we see that as an opportunity."

Fragrances: Major product launches or relaunches
(1986-87-88)

Brand	Company	Launch date	Initial distribution	Price points
Women's fragrances				
Lady Stetson	Coty	Summer '86	Mass & dept. stores	$7.50-$15
Masquerade	Prince Matchabelli	Winter '86	Mass & dept.	$9.50-$35
Wild Flower Musk	Houbigant	Fall '86	Mass	$6
Wild Flower Cologne	Houbigant	Fall '86	Mass	$6
Glorious	Cosmair	Spring '87	Mass & dept.	$12.50-$45
Notorious	Cosmair	n.a.	Dept. & specialty	n.a.
Intimate	Revlon	Spring '87	Mass & dept.	$9.50-$17
Xi'a Xi'ang	Charles of The Ritz	Fall '87	Dept. & limited mass	$10-$150
Le Jardin d'Amour	Max Factor	Spring '87	Mass & dept.	$5.50-$13.50
Passion	Parfums Int. Prince Matchabelli	Fall '87	Dept. & specialty	n.a.
Teen fragrances				
Intimate Musk	Revlon	Spring '86	Mass	$7.50-$11.50
Michael Jackson's Magic Beat	Max Factor	Winter '86	Mass	$2.95-$8.95
Heaven Sent Light Musk*	MEM Co.	Spring '87	Mass	$4.50
Love's Light Musky Jasmine*	MEM Co.	Spring '87	Mass	$5.95
Maniac	Colgate	Not set yet in test markets	Mass	$5.75-$7
Women's relaunches				
Jungle Gardenia	Beecham	Spring '86	Mass & dept.	$6-$12
Tigress	Faberge	Winter '86	Mass & dept.	$7-$26
Men's fragrances				
Adidas for Men	Beecham	Fall'86	Mass & dept.	$7.50-$25
Bowling Green	Jacqueline Cochran	Spring '87	Dept. & specialty	$15-$40
Sportsman	Houbigant	Spring '87	Mass	$10
Dallas	Colonia	Fall '87	Mass	$7.50-$14
Night Spice by Old Spice	Shulton Group	Fall '87	Mass	$7.50-$15
Chaz Musk*	Revlon	Spring '87	Mass	$8.75-$9.75

*Line extension
Source: Drug Store News Survey

Segmentation, price hikes fan cigarette profits

In an era of steadily declining demand, cigarette manufacturers continue to wage a furious battle for market share and profits with a two-pronged strategy: endless brand segmentation and price increases that have boosted the retail charge per pack about 75% since 1980, to about $1.10.

With domestic cigarette sales now well over $30 billion, that strategy is not hard to understand. Each share point represents hundreds of millions in annual revenues, and the steady price hikes for cigarettes—another 9% in 1986 over 1985 levels—have been more than enough to offset the continuing falloff in unit sales.

Cigarette sales in units declined another 2.1% last year, according to tobacco industry analyst John C. Maxwell Jr. of Furman, Selz, Mager, Dietz and Birney. That was on top of about a 1% decline in 1985.

Brand	Manufacturer	Market share	
		1985	1986
Marlboro	Philip Morris	22.4%	22.9%
Winston	RJR Nabisco	11.4	11.3
Salem	RJR Nabisco	7.9	7.8
Kool	Brown & Williamson	6.8	6.4
Benson & Hedges	Philip Morris	4.6	4.4
Camel	RJR Nabisco	4.3	4.3
Merit	Philip Morris	4.1	4.0
Newport	Lorillard	3.4	3.9
Pall Mall	American Brands	3.5	3.2
Vantage	RJR Nabisco	3.3	3.2
Top 10 total		71.7	71.4

Health concern impact

The trend is expected to continue as health concerns and social pressure against smoking in public heat up. Regulations banning smoking in public places like restaurants, and moves in Congress to outlaw all cigarette advertising could also affect demand.

"I expect sales to decline another 1% to 2% this year," said industry analyst Diana Temple of Salomon Brothers, "but with the lower tax rate, the price hikes and interest expenses declining, there will probably be another 15% growth in earnings for the tobacco industry this year."

What benefits retailers will reap from the surge in profits for cigarette companies, however, remain to be seen. Chain drug merchandisers report gross margins of only 8%-10% on cigarettes, before factoring in lucrative display incentives, and stiff competition for the cigarette dollar, despite the minimum pricing floors that have been enacted in many states.

Company	1985	1986	Share change
Philip Morris	35.9%	36.8%	+0.9%
RJR Nabisco	31.6	32.4	+0.8
Brown & Williamson	11.9	11.5	−0.4
Lorillard	8.1	8.1	—
American Brands	7.5	7.2	−0.3
Liggett	5.0	4.0	−1.0

Display incentives help

"The only way the category is really profitable for us is with the manufacturers' display allowances, which we take full advantage of," said Gerald Simpson, vp-merchandising, buying and advertising for Drug-Sav in Tyler, Tex. "Without that allowance for putting our cartons on a self-service display in front facing the checkstands, we'd see a maximum gross profit of no more than 10%."

"You're dealing in a lot of turns, of course, but our gross margin for cigarettes is only about 8%," added Martin Rosenstein, vp-merchandising and sundries buyer for Keystone Pharmacy in Omaha. "We have a minimum pricing requirement in our markets, so our bottom line never changes."

Despite the squeeze on margins, drug retailers remain wedded to cigarettes at the front end as a staple, dependable category. "We couldn't live without them," said one buyer. "They're a real traffic draw and a convenience item, and I think they'll remain a big part of our front-end mix."

Cigarettes are likely to generate even more revenues as prices continue to rise, as expected, and tax rates change. Salomon Brother's Temple predicts another 6% increase in cigarette prices later this year from manufacturers, and also foresees a likely doubling of the excise tax on cigarettes this year, from 16¢ to 32¢.

"It's before Congress now, and I think it will go through this year," she said. "When it does, it will likely give a further boost to individual pack sales over carton sales, since price will be a bigger factor than ever."

The price hikes and potential tax increase are also likely to give a further boost to the low-priced and value end of the cigarette market, now pegged at about 9% of the total. With the exception of market leader Marlboro and a few other brands like Lorillard's Newport, most of the real sales growth in cigarettes is confined to the value segment.

"From here on out, this grouping will grow at least one share point a year, if Lorillard and American Brands ever decide to get in at a slightly faster rate," noted Maxwell.

The proliferation of new products and brand segmentation, especially at the value-oriented end of the market, has led to a merchandising headache for most drug chains. In all, the cigarette market now numbers about 300 sku's, compared with just 37 in 1954, the year Marlboro was introduced. The brand segmentation, which shows no signs of letting up, is challenging merchandise managers as never before to make productive use of their space.

The problem is exacerbated by findings from Brown & Williamson that demonstrate retailers must stock 191 different brands and styles to satisfy the tastes of 98% of their customers.

"The number of sku's is ridiculous," exclaimed one merchandise manager. "It's almost impossible to weed out the slower movers effectively on an ongoing basis from the central office. We just let our store managers decide what brands to add and delete, because we want to satisfy as many customers as we can."

"Merchandising cigarettes is very difficult and getting tougher all the time," agreed Keystone's Rosenstein.

Pricing a problem

Pricing can also be a problem for drug chains and independents. With about 9% of the total cigarette market, drug stores are still overshadowed in tobacco sales by supermarkets, with about 30%, and convenience stores, which have about 18% of the market.

"What kills smaller retailers," said Drug-Sav's Simpson, "is when the manufacturers put through a big price increase, and you have to sit on it and stay with the old price until the big supermarkets pass it down."

Price-value category lights up shrinking tobacco market base

Low-priced and value-oriented cigarette entries continue to proliferate as manufacturers target one of the few areas of new sales growth opportunities left in the tobacco market.

Since its introduction five years ago, the price-value segment has made rapid and steady inroads into a shrinking market base and now accounts for at least 9% of sales and some five million smokers.

No-name and private-label generics continue to lead the price-value category, with about 4.5% of the total cigarette market. However, the growing popularity of branded generics—most notably R. J. Reynolds' Doral, which now accounts for about 2.3%of all cigarette sales—is eclipsing the strength of no-name products. Value-pack 25s, which offer smokers 25 cigarettes for the price of 20, are also gaining ground against no-name generics.

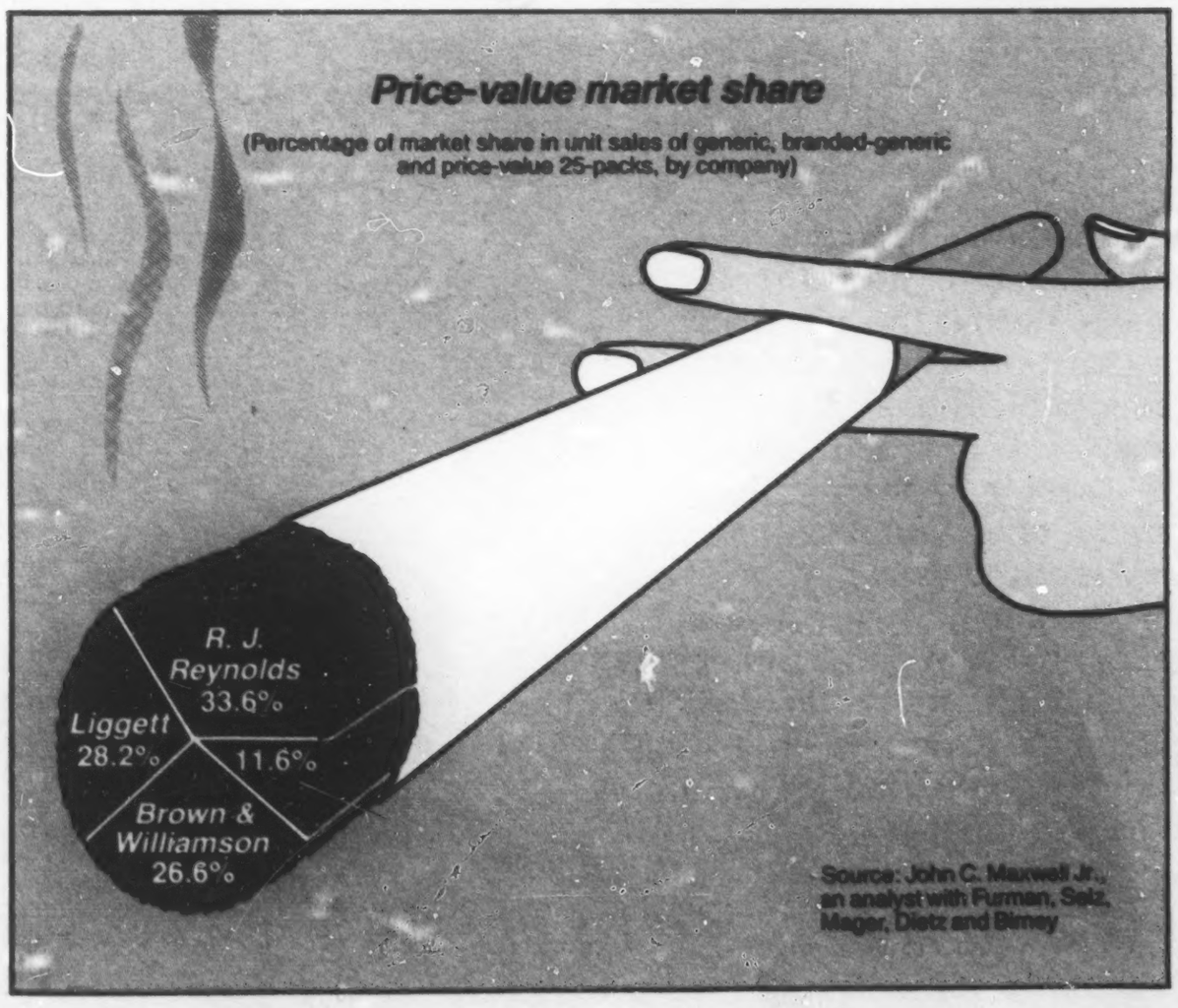
Generic share 'eroding'

"Despite a modest full-year share advance vs. 1985, the generics' [black-and-white or private-label] share position is now eroding," noted John C. Maxwell Jr., tobacco industry analyst.

Branded generics, which offer smokers brand identification at a generic price, now account for about 2.7% of all cigarette sales, according to Maxwell, while value-pack 25s have a 1.8% share. The strength of branded lowballers rests on the success of Doral, which gained nearly a full share point last year, and Philip Morris' Cambridge Lights, which captured a healthy 0.6% of the market following its May 1986 introduction.

Since the initial success of Doral and Cambridge, Brown & Williamson and

Continued on page 27


Price-value market share
(Percentage of market share in unit sales of generic, branded-generic and price-value 25-packs, by company)
R. J. Reynolds 33.6%
11.6%
Brown & Williamson 26.6%
Liggett 28.2%
Source: John C. Maxwell Jr., an analyst with Furman, Selz, Mager, Dietz and Birney

Tobacco TRENDS

Price-value segment a bright spot in dwindling market

Continued from page 24

American Brands have followed Philip Morris and RJR into the branded generic market. B&W is rolling out Falcon Lights, its first entry into that segment, while American Tobacco is expanding the test of its first generic-priced entry, called Malibu, available in 100mm lengths in regular, "lite" and menthol. Falcon will rely heavily on point-of-purchase marketing and will retail for about 25% below traditional branded entries, according to B&W.

Capri launched

"Value-priced brands rely more heavily on promotion at point-of-purchase than traditional forms of advertising," said B&W vp-sales Lanny Butler.

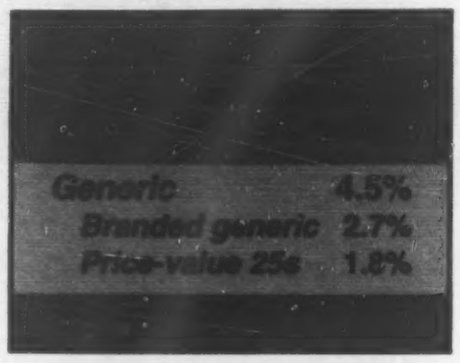
In the full-priced arena, B&W is also launching Capri, an ultraslim cigarette positioned toward women.

Both RJR and Philip Morris, meanwhile, are adding to their strength in the price-value segment. RJR is beginning a 10-market test of Magna, a new low-priced brand aimed at image-conscious smokers. The brand will feature high-tech packaging and package options that include a crush-proof box. The brand will be supported with a major introductory ad splash, as well as coupons and buy-one-get-one-free offers.

RJR is also trading on the success of Doral with three new line extensions: Doral Full Flavor 85s and 100s and Doral Ultra Light 100s.

Value-25 entries

The success of value-25s is also drawing new entries into the market. Pioneered by B&W's Richland brand, the



category has since been fleshed out with other brands like Philip Morris' Players Lights and RJR's Century.

Among full-priced cigarette brands, Philip Morris' Marlboro and Lorillard's Newport stand out as notable exceptions among the 10 top-selling brands, whose sales were otherwise either flat or down last year. In 1986, Marlboro maintained its utter dominance of the cigarette market, with 22.9% of all sales vs. 22.4% the previous year. Newport also continued its strong surge in demand, ended the year with 3.9% of the market and a 12% jump in unit sales over 1985.

Philip Morris' Virginia Slims also enjoyed strong sales last year, aided by the introduction of Lights 120s, and ended the year with a small increase to about 2.9% of the market.

> *'Value-priced brands rely more heavily on promotion at point-of-purchase than traditional forms of advertising.'*
>
> **—Lanny Butler**
> *vp-sales,*
> *Brown & Williamson*

Disposable lighters are solid sellers

Manufacturers of disposable lighters continue to aim at the estimated 50% of American smokers who still rely on matches to light up, but for now, the lighter category continues its modest 3% yearly climb in sales.

The market for disposable lighters reached about 480 million units last year, yielding retail sales of roughly $300 million.

With sales advancing only modestly, the category continues to be marked by heavy infighting for market share among a handful of players. Bic maintains a commanding lead in that market, with 50%-55% of sales. The remaining half of the market is split between Scripto/Tokai and Universal Match/Cricket, each with about 20% of total sales, and a few import brands.

For retailers, the market for disposable lighters remains attractive, despite the lack of huge incremental sales gains. Lighters are high-margin, high-impulse items that lend themselves well to cross-merchandising and checkstand positioning.

"It's a good category—not outstanding, because we're talking about a 79¢ item, but a solid performer," said one chain drug merchandiser. "We can get a gross profit of about 50% when we keep them at full price, and it's a simple category to track."

***For fresh ideas in marketing, see* Product Update**

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The cigarette category.

Sure, the category is already profitable. But with B&W's Tobacco Plus program you can make even more profit.

Tobacco Plus is the most comprehensive service program in the industry today. With Tobacco Plus, you can maximize your sales, profits, turns and R.O.I.I. on all your B&W brands.

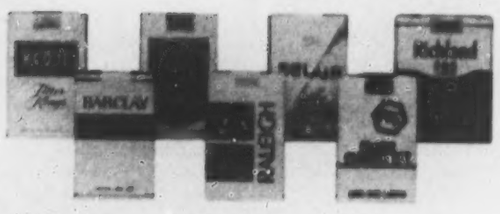
The program shows which B&W brands, and how many, you should carry to meet consumer demand and optimize sales. It also shows how to select the most effective carton and pack merchandising methods. And finally, Tobacco Plus shows how to manage your inventory, at its highest and lowest levels, for maximum profitability through our promotions.

Tobacco Plus will assist you in giving the category the kind of attention it needs to be as profitable as it can be, with such services as:

- ☐ Carton & Package Merchandising
- ☐ Carton Shelf & Counter Display Payments
- ☐ Account Business Analysis
- ☐ Liberal Selling Terms
- ☐ Direct Account Incentive Program
- ☐ Generic Program Incentives
- ☐ Systematic Inventory Control

Of course, it's *only* money. But if your company wants to make more of it, you want Tobacco Plus.

Your Brown & Williamson representative will be happy to tell you about it. Or call 1-502-568-7600 for more information.



Tobacco Plus

B&W
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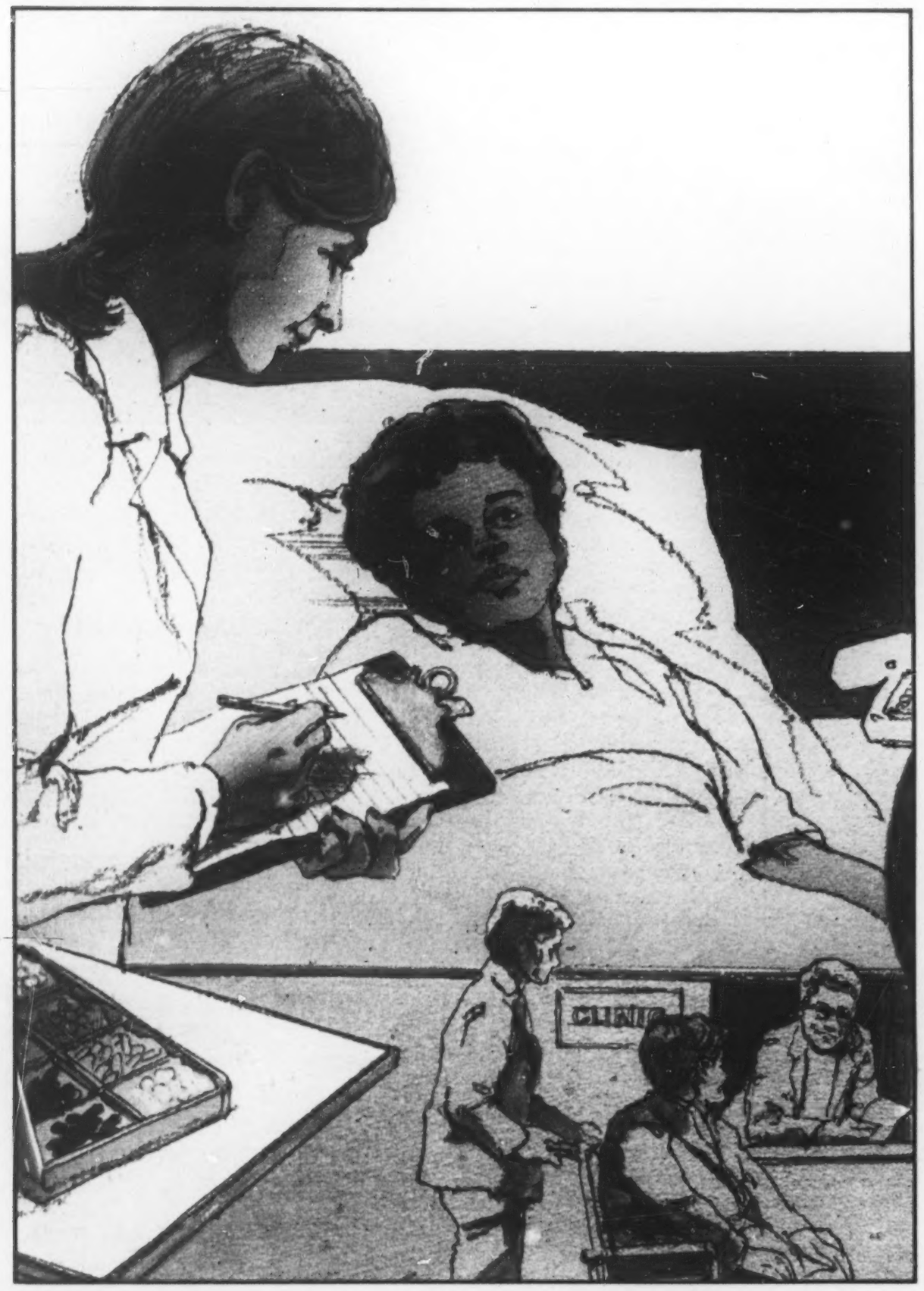
Medical advances to change pharmacist role



By Harold Cohen, R.Ph.

By the year 2000 . . .

—There will be a cure for AIDS . . .
—Two out of every three cancer patients will be cured . . .
—Drug infusion implants will be common . . .
—Widespread use of clot-dissolving drugs will replace most of the coronary bypass operations now performed . . .
—There will be a shift in the balance between traditional psychoanalysis and drug therapy in favor of drugs.

Sound impossible? According to a recently published Lou Harris study commissioned by Bristol-Myers, most or all of these seeming medical miracles will be in place as we usher in the 21st century.

More than 200 world-class research scientists who participated in the study said we will see "remarkable medical advances in the prevention, diagnosis and treatment of many diseases" between now and the year 2000.

Longer life span

What does all this good news mean for the average American? A longer life span. The scientists believe that by the turn of the century, the average life expectancy for women will increase to 82 years, while for men it will be 75. The majority of researchers agree that the No. 1 health threat facing the United States in the next 30 or so years will be diseases stemming from an aging population: cardiovascular disease and mental disorders such as depression and Alzheimer's.

Said one scientist, "Our population is aging, so people live longer, but also acquire more difficulties and diseases like arthritis, musculoskeletal diseases, senility, depression, loneliness—in short, social diseases."

Doctors aren't the only group of health professionals who will face change in the next century. Pharmacists are expected to play an integral role in catering to the medical needs of an aging population.

Pharmacist of tomorrow

Ken Dychtwald, Ph.D., a psychologist and president of the consulting firm of Dychtwald and Associates, believes that increased levels of technology could leave the pharmacist stranded. He believes that if the pharmacist is to survive, he or she must move into areas that will fulfill the needs of aging customers.

"The responsibilities of the pharmacist would become increasingly limited, as the job of filling and documenting prescriptions could be more accurately and cost-effectively handled by computer," said Dychtwald in a paper delivered before a strategic planning conference for the professional pharmacy community entitled "Pharmacy in the 21st Century."

"In a sense," continued Dychtwald, "pharmacists of the future will resemble the old-fashioned apothecary or community druggist of the past

Continued on page IP10

'Consumers are going to demand more from the pharmacist of the future, and that means a higher profile for the pharmacist as a drug consultant.'

—Tim Webster
executive director, American Society of Consultant Pharmacists

'Medicine in Next Century': What researchers predict

Leading medical researchers were asked several questions concerning the direction of medicine in the next century. Their responses were gathered by the well-known polling firm of Louis Harris and Associates and released in a report commissioned by Bristol-Myers.

In the report, titled "Medicine in the Next Century," the 227 scientists said that, overall, the new frontier for medicine in the next century will center around the fundamental understanding of cell mechanism—how life and disease function at the cell level.

In addition, advances in biotechnology will have their effect on several disease states.

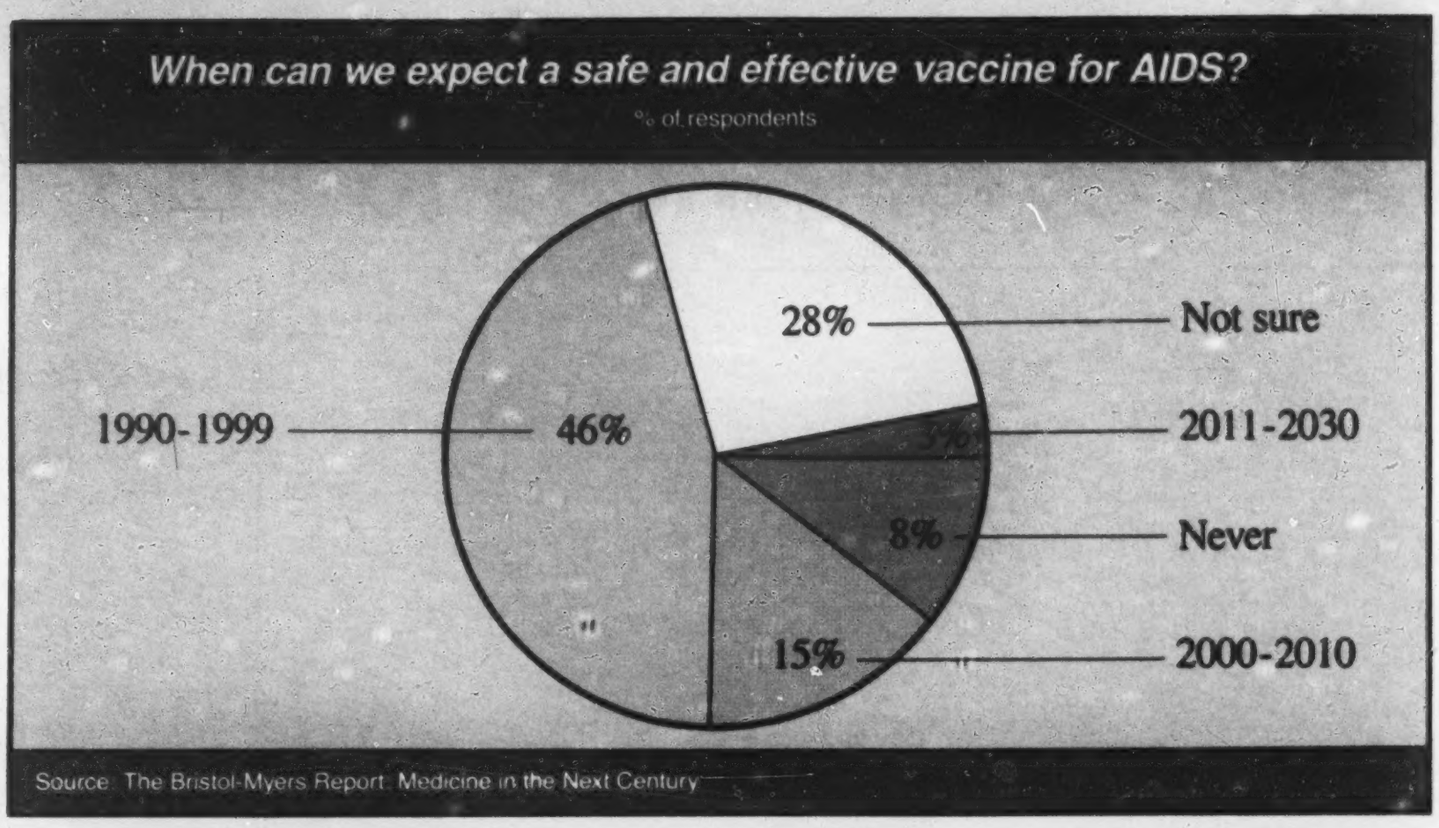
One disturbing piece of news to come out of the study is that the researchers believe there will be more than one million cases of AIDS in the United States by the year 2000.

But on a more positive note, what follows are some of the more exciting predictions to come out of the study.

- Despite the fact that there will be more cases of AIDS by the turn of the century, a majority of the scientists predicted that there will be a cure and a safe and effective vaccine against the killer disease by the year 2010.
- Life expectancy for men will rise from 71 to 75 and for women, from 78 to 82 by the year 2000.
- There will be an improved cure rate for cancer, with doctors curing 2 out of every 3 patients by the year 2000. Almost all of the scientists predicted cure rates of 75% or higher.
- A "smokeless society" will be the most effective strategy in the prevention or treatment of lung cancer.
- Approximately 60% of the researchers believe it will be possible to vaccinate people against certain types of cancer by the year 2000.
- Elimination of the more than 200,000 coronary bypass operations will be replaced by less invasive catheter-based procedures such as balloon angioplasty or the use of clot-dissolving drugs.
- There will be great advances for the treatment of depression and a better understanding of the molecular biology of the brain, with an emphasis on neurotransmitters and the biological basis of psychiatric disorders.
- The greatest improvement in the prevention of infectious diseases is seen for hepatitis, haemophilus and typhoid fever. By contrast, more than half of the scientists interviewed see no progress for preventing the common cold. They are also somewhat less optimistic in assessing improved prevention of sexually transmitted diseases.
- The year 2000 will see the common use of a wide range of artificial devices, including implantable drug infusion systems, implantable hearing aids, artificial blood and bones from bone banks.

A panel of medical science researchers offer their comments on a new study, "Medicine in the Next Century," during a press conference in New York City this month. From left to right are Dr. James Watson, Nobel Laureate and director of the Cold Spring Harbor Laboratory; Dr. Vincent DeVita, president and director, National Cancer Institute, Bethesda, Md.; and Dr. Michael DeBakey, chancellor of Baylor University College of Medicine, Waco, Tex., and director of the DeBakey Heart Center in Houston.

Medical advances to affect pharmacy



Continued from page IP9

who maintained personal contact with and interest in the overall well-being and complex mental, physical and social needs of their customers.

"The pharmacists of tomorrow could serve the overall community good by advising their clients on remedies and drugs, educating them on health-related concerns and monitoring their involvements with assorted medical and self-care regimens," said Dychtwald.

High-tech drugs

According to the Harris study, one of the most promising areas in biotechnology research will be the increased understanding of how genes work and the development of genetically engineered vaccines, with emphasis on monoclonal antibodies.

Undoubtedly, the pharmacology of drugs developed by genetically altered microbes or cells will be more complicated than drugs developed by conventional means.

"The pharmacy of the future may well stock pumps, patches, timed-release pills, liposomes, implants and vials of tailored monoclonal antibodies," predicts William Check, Ph.D., former associate editor of the *Journal of the American Medical Association* and now involved in his own medical and scientific communications business. "One could also imagine that the pharmacist of the 21st century will handle gene-splicing enzymes and nucleic acid precursors for individualized gene therapy."

Consulting role to grow

Check believes that although pharmacists' future role will be altered, the pharmacist definitely will not disappear.

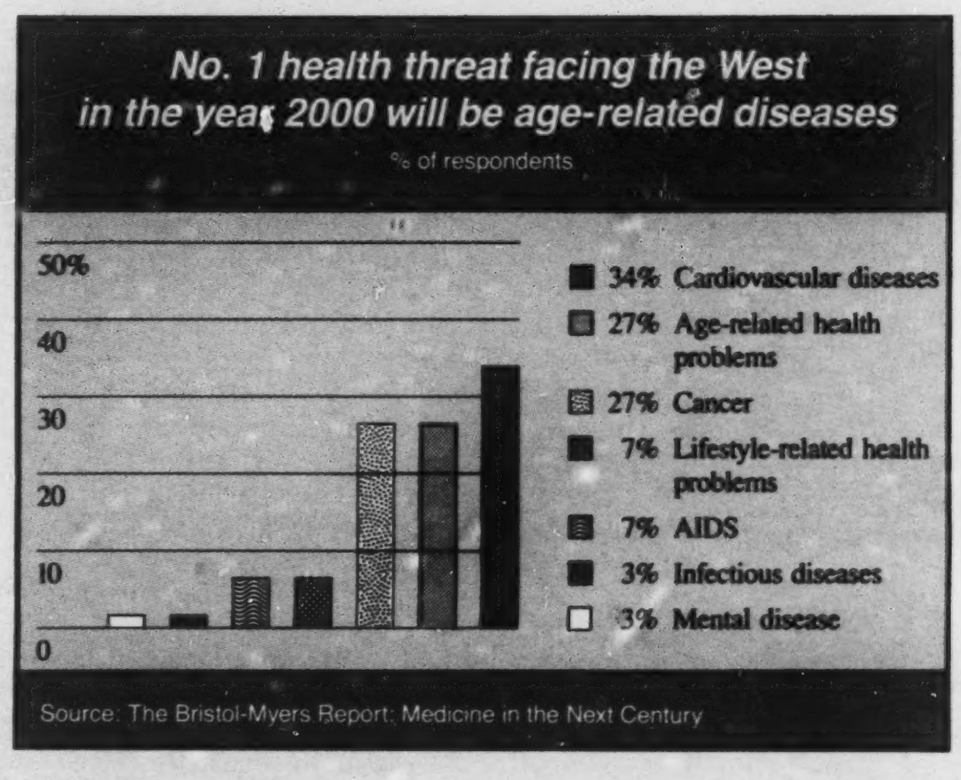
"People like to talk to people, not just machines," said Check. "The pharmacist of the future must be informed enough to cope with [high-tech drugs and procedures]—not just with doses and administration schedules, but with the basic mechanisms by which drugs act."

Tim Webster, executive director of the American Society of Consultant Pharmacists (ASCP), told *Drug Store News* that he also believes the pharmacist will play a key role in explaining the complexities of 21st-century drugs to consumers.

"Pharmacy's future lies not so much in selling drugs," said Webster. "Consumers are going to demand more from the pharmacist of the future, and that means a higher profile for the pharmacist as a drug consultant."

Webster agrees with Dychtwald's prediction that pharmacy as we know it today probably will not exist in the year 2000.

"Even today, we are seeing more and more pharmacists taking on a more professional role," said Webster. "Today's drugs are already being viewed by many consumers as just another commodity. The drugs of the future will be more complex. Consumers are going to want more information."



'More tuned in'

M. Keith Weikel, Ph.D., former commissioner of the Medical Services Administration, which administers the Medicaid program, asserts that competition will change pharmacists' roles.

"The 1980's and 1990's will be characterized by the development of real, perhaps even fierce, competition at all levels of our economy," said Weikel. "Increased competition in health care will be for resources of all types—for patients, capital, cost-effective technology, quality physicians, market share and for hospitals. The deliverer of health care, whether it be a hospital and some freestanding institution, a physician or a pharmacist, is going to have to be more tuned to the needs and desires of potential patients if they are to be successful."

ASCP's Webster believes if pharmacists don't take up broader roles as health consultants, "they won't have any role in the future of health care delivery" in this country.

According to Webster, the trend toward new roles for pharmacists has already started, as evidenced by the dramatic growth of ASCP's membership.

Since 1976, membership in the consultant organization has grown from 871 to more than 2,500—an average yearly growth of roughly 12% in that period.

According to a survey recently undertaken by the ASCP, its members have shown a strong commitment to expanding their professional knowledge base to keep up with the changing pharmacy environment in which they work.

Over half of the membership hold a Pharm. D. degree, and more than a third hold the M.S., while 11% have earned a Ph.D. or M.D. degree.

Specialized knowledge

Although these pharmacists are engaged in some form of consulting services, the majority (49.3%) provide their services as part of a typical community pharmacy practice.

"What this all boils down to is that there is an increasing value to information that can be obtained from the pharmacist," said Webster. "As the drugs we take become even more sophisticated, so does the value of that information."

Webster predicts that pharmacists will eventually leave the filling of prescriptions to licensed technicians and will make a living solely from being a consultant.

So far, only 6.4% of ASCP's membership is engaged full-time in providing consultant services as their primary source of income, and another 10.9% does so on a part-time basis as a supplement to a regular job.

Consultation paths

But as advances in medical technology keeps people alive longer, the need for nursing homes and at-home care will also increase.

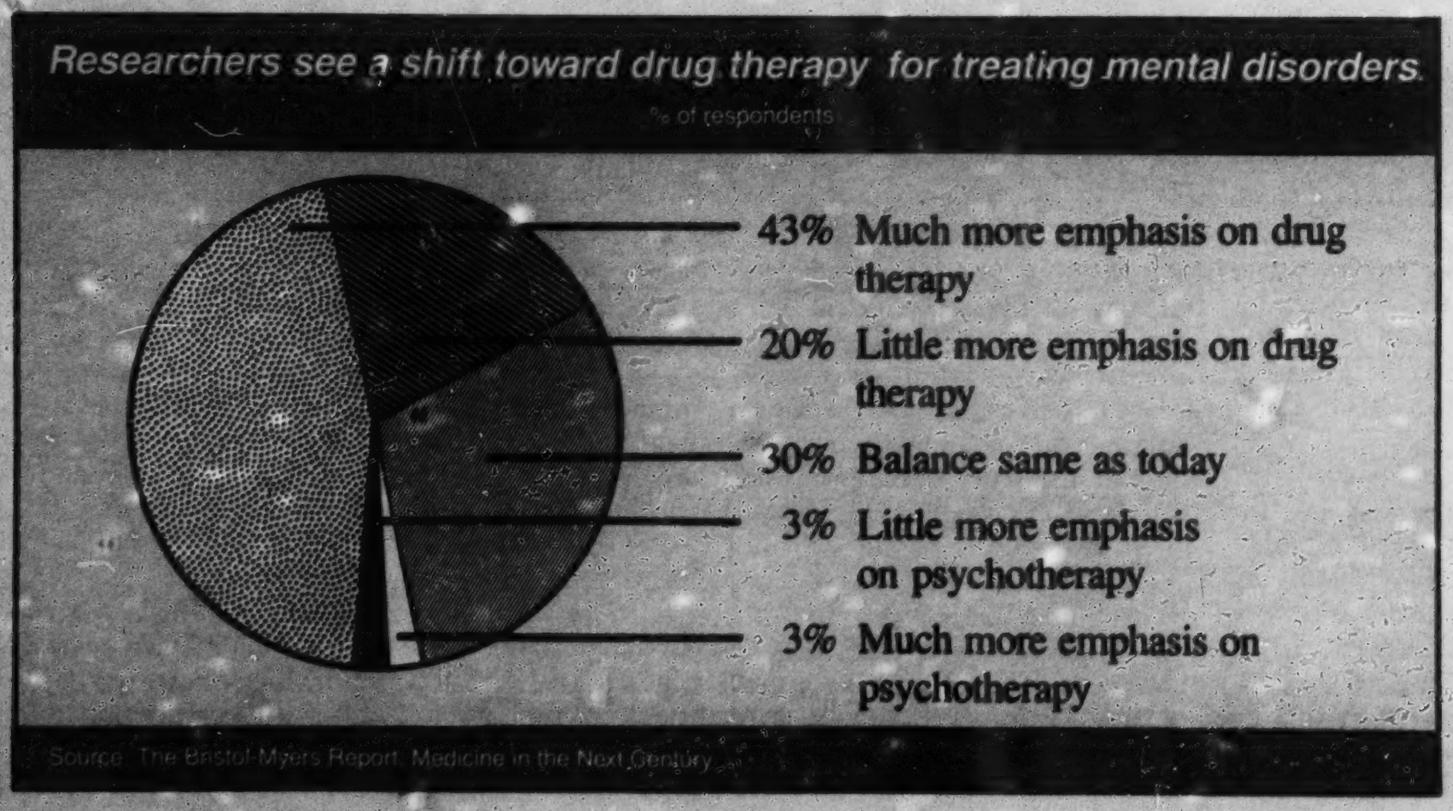
Currently, 12.9% of ASCP's members are providing consultant services to nursing homes or other institutions as their only business.

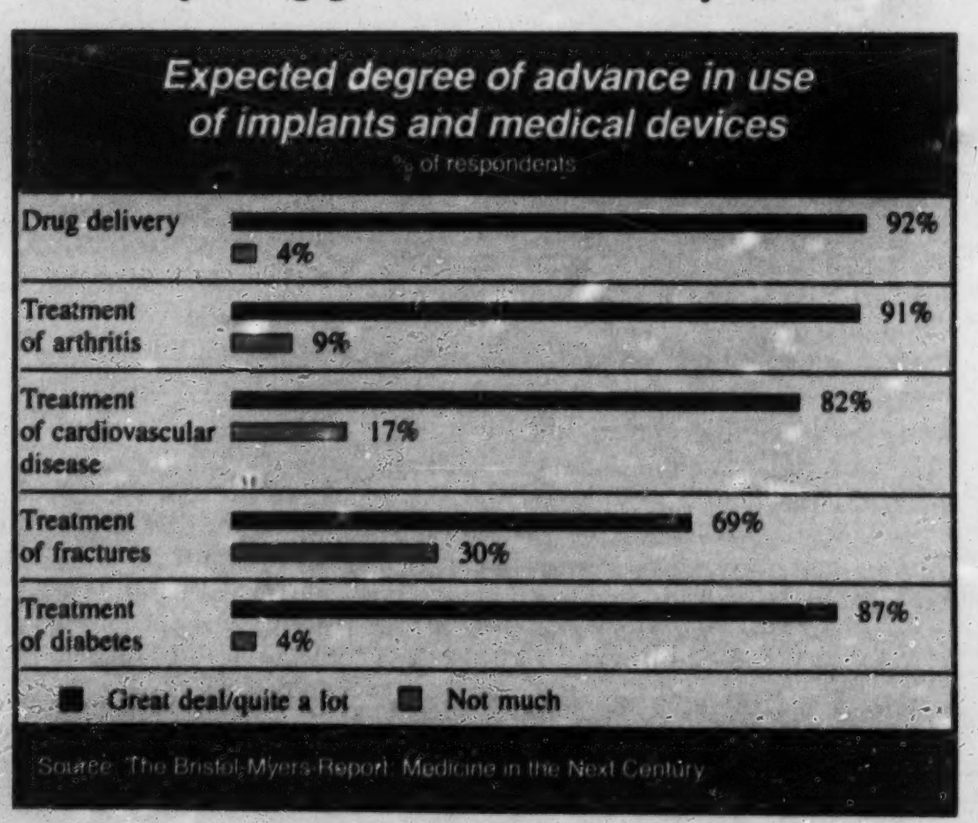
According to ASCP's survey of its membership, the consulting trend is certainly not limited to nursing homes.

Other areas of pharmacy consultation include hospital, home health agencies, prisons, industry, mental institutions, alcohol or drug rehab centers, HMOs, hospice units, and adult day care centers.

'The deliverer of health care, whether it be hospital or some freestanding institution, a physician or a pharmacist, is going to have to be more tuned to the needs and desires of potential patients if they are to be successful.'

—M. Keith Weikel, Ph.D.
former commissioner, Medical Services Administration


Researchers see a shift toward drug therapy for treating mental disorders
% of respondents
43% Much more emphasis on drug therapy
20% Little more emphasis on drug therapy
30% Balance same as today
3% Little more emphasis on psychotherapy
3% Much more emphasis on psychotherapy
Source: The Bristol-Myers Report: Medicine in the Next Century


Expected degree of advance in use of implants and medical devices
% of respondents
Drug delivery 92% 4%
Treatment of arthritis 91% 9%
Treatment of cardiovascular disease 82% 17%
Treatment of fractures 69% 30%
Treatment of diabetes 87% 4%
Great deal/quite a lot
Not much
Source: The Bristol-Myers Report: Medicine in the Next Century

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DRUG STORE NEWS®

April 13, 1987

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

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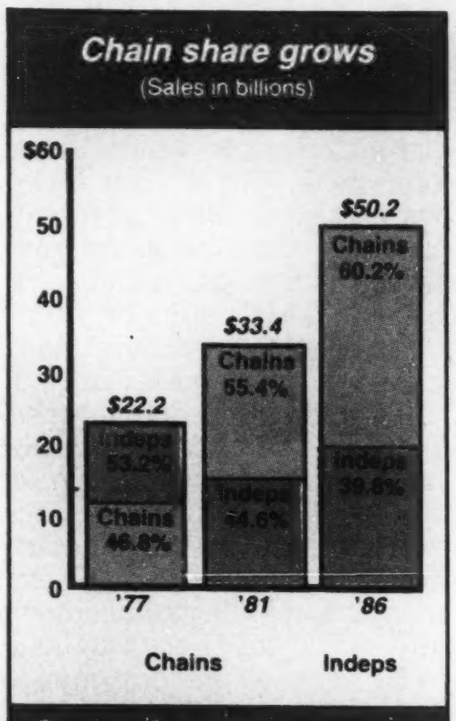
Pharmacy:
Ill. Blue Cross/Blue Shield cuts Rxer fees—p. 131

Special feature:
NACDS on the move—p. 12

Merchandising:
May's plans strategy for future growth—p. 24

DRUG STORE NEWS®

Vol. 9/No. 8 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. April 13, 1987



Drug chains once again increased their share of total industry business, to 60.2% in 1986. See *Drug Store News* 1987 Annual Report, page 55.

Revco appoints Edwards to ceo spot

Top-level changes set management team of future

By Jim Frederick

TWINSBURG, Ohio — In a sweeping series of appointments, Revco president and coo Bill Edwards has succeeded chairman Sid Dworkin as chief executive officer of Revco and its parent company, Anac Holding Corp. Dworkin, a co-founder of the nation's largest drug chain, will remain board chairman.

Dworkin told *Drug Store News*, "I will continue to handle corporate policy, public affairs, the divestiture of certain divisions, and most important, preparing Revco for the year 2000."

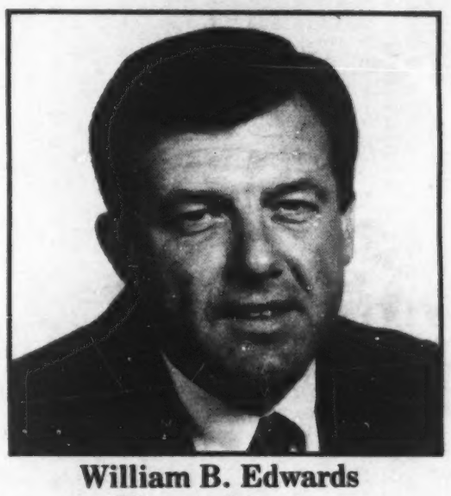
Simultaneously, Revco announced the departure of R. Carroll Hudson as chief financial officer and the election of three new, independent directors of Revco and Anac.

In a statement April 1, Dworkin said the appointments reflect "the building of a larger and strengthened Revco management team to lead the chain's future growth."

Full responsibility

The shift in duties gives Edwards, 46, full management responsibility for the 2,000-store drug chain and leaves Dworkin free "to devote his primary energies to strategic planning for the company's long-term growth, and to implementation of the divestiture program undertaken in connection with the management-led leveraged buyout of Revco in late 1986," according to the company. Those planned divestitures include seven Revco divisions, including Carter-Glogau Laboratories, Private Formulations and Leading Software Technology, as well as some 100 marginally profitable Revco drug stores around the country.

Revco spokesman Stanley Rubenstein said the shift in duties between Dworkin and Edwards grew out of a "consensus" by Revco and Anac board members, including inside managers and outside directors. "They've been discussing the change for a while," he said. "Everybody recognized that there would be changes once the new board was in place following the buyout."



William B. Edwards
Elevated to ceo

Conflicting stories have arisen, however, over Dworkin's exit from Revco's day-to-day management. Some industry insiders say the 66-year-old chairman harbored a

See **Revco,** *page 147*

Rite Aid Superdrug sale adds flex to fiscal picture

By Al Heller

SHIREMANSTOWN, Pa. — Rite Aid's $102 million sale of its 28.2% interest in British health and beauty aids chain Superdrug Stores PLC to Woolworth Holdings PLC brought a highly profitable end to a 16-year investment for the nation's No. 6 drug chain.

But because this comes on the heels of its shelf registration to issue $200 million in long-term bonds, and its recent aggressive takeovers, industry watchers sense that Rite Aid will be on the prowl again before long—only next time they will be armed with lots of fresh cash and financing.

See **Rite Aid,** *page 147*

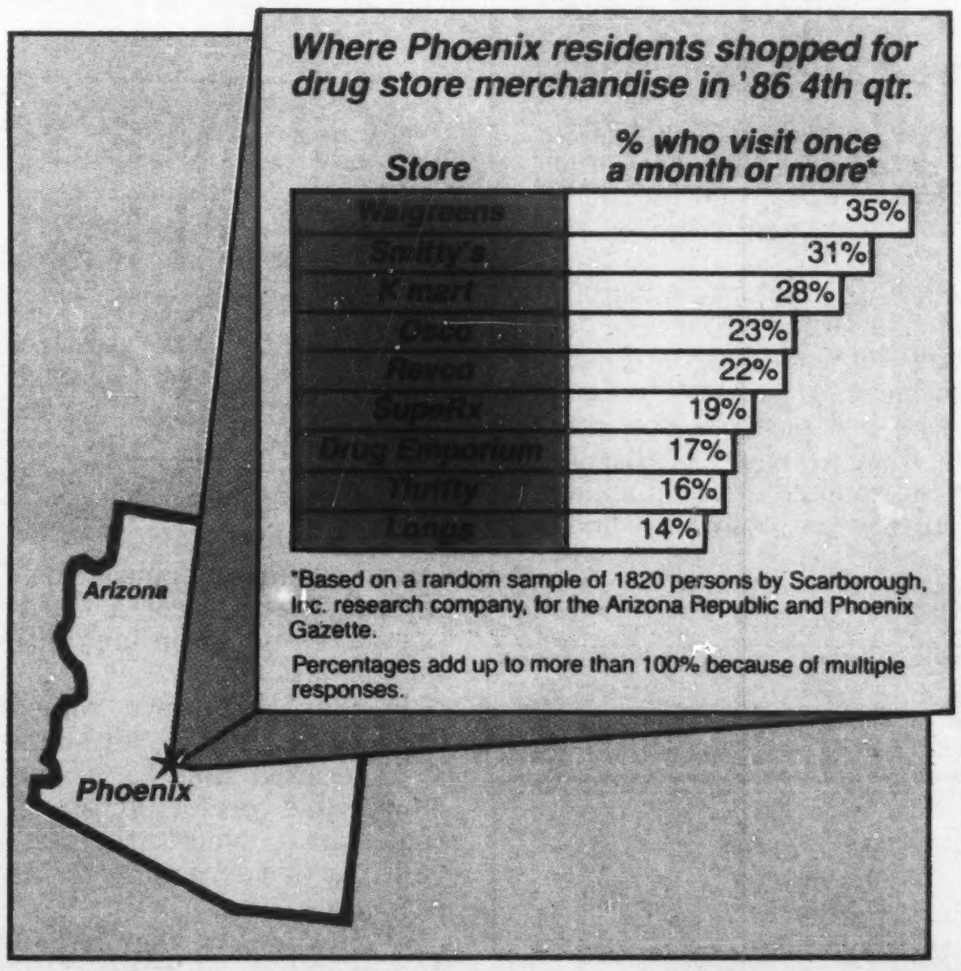
Chain turns around net earnings slide

SHIREMANSTOWN, Pa. — Rite Aid just halted its two-year net earnings slide with a dramatic turnaround.

Ever since the chain's net income peaked at $74.2 million in the fiscal period ended early 1984, net slid to $69.9 million in the next 12 months, then to $62.5 million the following year.

Net income in the 12 months ended Feb. 28 jumped to $77.98 million

See **Earnings,** *page 147*


Where Phoenix residents shopped for drug store merchandise in '86 4th qtr.
Store
% who visit once a month or more*
Walgreens 35%
Smitty's 31%
Kmart 28%
Osco 23%
Revco 22%
SupeRx 19%
Drug Emporium 17%
Thrifty 16%
Longs 14%
*Based on a random sample of 1820 persons by Scarborough, Inc. research company, for the Arizona Republic and Phoenix Gazette.
Percentages add up to more than 100% because of multiple responses.
Arizona
Phoenix

Wolken targets growth in 2 hot Sunbelt markets

By Dave Vaczek

PHOENIX — SupeRx Corp. will use 28 stores here and 10 in Atlanta as springboards for growth in these two hot Sunbelt cities.

The 47-store chain—acquired by SupeRx managers for $30 million last month—can develop local marketing and merchandising flexibility the stores lacked as part of a multi-regional chain under Kroger.

SupeRx Corp. has the best leverage in Phoenix, where 28 stores have key sites and where the population will continue to grow at a rapid clip, according to market sources.

"They're well placed, in

See **Wolken,** *page 147*

LATE NEWS

• HAZELWOOD, Mo. — Wal-Mart will soon have nine Dot deep discount stores, after opening one in Kansas City on April 7, another in Lincoln, Neb., on the 14th, and a unit here in June.

• MEDINA, Ohio — Discount Drug Mart, the 22-store private chain, posted net earnings up 33% from depressed results of the past year, on sales of $94 million, up 8%, for the year ended March 31.

• HOFFMAN ESTATES, Ill. — Dominick's Finer Foods has opened its newest food/drug combo in this suburban community 15 miles northwest of Chicago. The chain now has 10 combo stores open in the Greater Chicago market and will open its first Omni superwarehouse store this month in nearby Orland Park.

Maxidrug: A new deep discount twist

WEST SPRINGFIELD, Mass. — Maxidrug is a different breed of deep discounter.

It is smaller than most, positions itself as a health care store, sells limited general merchandise, uses mostly conventional fixtures and anchors rear corners with a service cosmetics bar and pharmacy.

The 12,000-sq.-ft. (selling space) store, which opened here March 26, is the first of four New England sites The Jean Coutu Group (PJC) USA plans to open by late summer.

An 18,000-sq.-ft. (selling space) prototype is being developed for New Bedford and Pittsfield, Mass., sites to open in early June, and East Springfield, Mass., to open by August. The Coutu U.S. subsidiary will own all sites except Pittsfield, which has a 20-year lease, Jean Coutu, chairman of the parent, told *Drug Store News*.

Committed $13M

The Canadian owners have already committed $13 million in startup costs for the first four stores, Coutu said. The company had originally allocated $25 million (Canadian)—more than half its gross from a $48 million initial public stock offering in 1986—to gain sites for, equip and inventory 12 Maxidrugs over the next three years.

According to vp George Neville, the site purchase strategy is meant to "build our asset base so we [the U.S. subsidiary] can be financially autonomous in three years. We'll be acquisition-minded."

Indeed, the company, headed by Michel Coutu, who relocated here to run the business, bought Ryan's, an indepen-

See **Maxidrug,** *page 147*

NEWS IN BRIEF

Bindley promotes 2 in drug division

INDIANAPOLIS — Bindley Western Industries has finished a two-year restructure by naming two employees to top positions in its main drug wholesale division.

C. Richard Zartman, an 11-year employee who was most recently an executive vice president, was named president and ceo of the Bindley Western Drug Co. Also, Gregory Beyerl has been promoted to comptroller, from assistant comptroller in the Bindley drug company, which is the main operating division of Bindley Western Industries. Beyerl has been with the company since February 1986.

The appointments cap a restructure of top management that Western Industries president William Bindley has said will position the midwestern company to aim for $1 billion in sales in 1987.

NHMA announces 2nd housewares show

CHICAGO — The National Housewares Manufacturers Association has reinstated a second housewares show in 1988. It will run July 11-14 at McCormick Place East here. The show will not be organized by product categories, the trade group said.

Fantle elected to Fay's Drug board

LIVERPOOL, N.Y. — As expected, Sheldon "Bud" Fantle was elected to the board of Fay's Drug Company at a March 19 meeting of directors. Fantle retired recently from the chairmanship of Peoples Drug Stores.

Malone & Hyde promotes MacIntosh

MEMPHIS — Malone & Hyde Drug Stores has promoted David MacIntosh, 38, to the post of vp-pharmacy. He succeeds the late W. Ray Hackney, who died of cancer last month at the age of 52. Hackney was senior vp-pharmacy.

MacIntosh has served as Memphis area district manager for Super D Drug Stores since 1981, after six years as a Super D store manager.

Malone & Hyde operates 105 drug stores in the Southeast under the names Super D, Petty's, Consumers and Pay-Rite.

Bergen launches 'Drug Free Workplace'

ORANGE, Calif. — Bergen Brunswig Corp. will establish a "Drug Free Workplace" program June 1, said president Robert E. Martini. He called the program "preventative," and said it will emphasize education and rehabilitation.

Now through June 1, through its employee assistance program, Bergen will give workers up to two weeks paid leave for medical treatment and 100% paid medical benefits for drug dependency treatment.

After June 1, employees who test positive after drug screening tests will be placed on medical leave of absence, be required to get medical attention and drug rehabilitation. When employees return to work, they'll be under probation for 12 months.

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Vol. 9, No. 8 April 13, 1987

Sherwin-Williams solicits bids for 358 Gray stores

By James Frederick

CLEVELAND — Sherwin-Williams denies that it has set a deadline for the sale of its 358 remaining Gray Drug Fair stores to former Gray president Carl Bellini, but Gray's parent company has reopened talks with other potential buyers about the sale of the chain.

Those talks come amid growing concern over the ability of Bellini and the investor group he leads, to raise the estimated $100 million to $150 million needed to purchase Gray from the paint and coatings giant.

In a related development, S-W finalized in mid-March the sale of 103 Gray and Drug Fair stores in Florida and Baltimore to Rite Aid Corp.

Bellini has reportedly gone to both Citibank and The Trump Group in efforts to pull together a financing package to complete a leveraged buyout for the rest of the chain. The Trump Group, a New York-based investment company headed by Eddie and Julius Trump, was instrumental in the leveraged takeover of Pay 'n Save Corp. two years ago for $360 million.

According to one source, Bellini also received loans at the end of last year from Sherwin-Williams at 5% interest.

Sherwin-Williams spokesperson Diane McCormick characterized as "speculation" rumors that Bellini's bid for Gray was in trouble, or that Sherwin-Williams was growing impatient to close the deal, first struck in December. "Those reports are just speculation," she said. "No deadline has been set for Mr. Bellini."

> *'They wanted me to have a look at the contract as agreed upon by Bellini . . . We have some major points in that contract we're not satisfied with . . . Sherwin-Williams is a difficult seller.'*
>
> **—Al Towle**
> *former Gray president*

She acknowledged, however, that "other parties have expressed interest."

Towle still interested

Chief among those parties is former Gray president Al Towle, whose bid for Gray has essentially remained on the table since Bellini won a bidding war for the Gray contract in December. Towle told *Drug Store News* that Sherwin-Williams contacted him again in mid-March. "They wanted me to have a look at the contract as agreed upon by Bellini, and my lawyers and I have gone over it in the last week," Towle said. "We don't like it. We have some major points in that contract we're not satisfied with."

The problems had to do with "contractual issues," Towle said, rather than the asking price for the stores. "There are certain representations and warranties having to do with taxes and real estate that we're not happy with," he noted, adding, "Sherwin-Williams is a very difficult seller."

Warehouses in dispute

Towle declined to discuss specific issues, but a market observer on the East Coast familiar with the sale said the parent company wants to retain ownership of Gray's two warehouse facilities in Cleveland and Alexandria, Va., and lease them to the chain's new owner. "That's a major stumbling block for the investment bankers," the source said.

The same observer noted that sales and profits at Gray have suffered over the past two months, as the impending sale has distracted upper management and disturbed the morale of middle management and store-level employees.

In another development, former Peoples Drug Stores chairman Sheldon "Bud" Fantle has denied published reports that he was interested in acquiring all or part of the Gray stores. Instead, said one observer, Fantle may attempt a deal with Peoples for its Lane Drug division, headquartered in Toledo, Ohio.

SGC waits for other players while Haft raises bid to $1.8B

WOODBRIDGE, N.J. — Supermarkets General is facing dwindling ways to dodge the Dart Group's hostile takeover attempt.

By raising its bid on March 24 to $1.8 billion, Dart has made potential takeover defenses, such as a management leveraged buyout or a third-party rescue from a white knight, less likely.

Few analysts have valued SGC above the $45 per share ($42 in cash and $3 of exchangeable preferred stock) that Dart's owners, the Haft family, were proposing at presstime.

Meanwhile, no new bidder has emerged, although SGC has reportedly sent information to 20 inquiring parties.

Scotched friendly merger

SGC management, for its part, seemed to snuff any potential for the friendly merger the Hafts said they sought, when it issued a stinging letter asserting the Hafts had placed the credibility of SGC management in doubt. It said, "No transaction involving trust and confidence can be entered into with you."

The letter was prompted by what SGC termed "propaganda and misstatements" in a statement by Dart president Robert Haft, in which Haft suggested SGC management is primarily concerned about receiving a $33 million "goody package" for themselves.

While SGC has said it is awaiting a report from Shearson Lehman on its alternatives, its behavior after several meetings with the Hafts goaded them into making a higher offer.

Latest offer

As part of the latest offer, the Hafts said they will give SGC shareholders a continuing common stock interest in the new acquiring company.

Dart said it will pay for the buyout with $750 million in subordinated debt raised by Kidder, Peabody, plus $950 million more in senior debt. The remainder will come from Dart itself, which has compiled a formidable war chest in two years of investing in companies it has marked as takeover targets.

Supermarkets General operates variety of food and drug store formats

Division	Food	Drug	Format
PATHMARK			
Pathmark drug stores	—	29	Conventional
Pathmark Super Drug	—	9	Deep Discount
Pathmark Super Store	27	—	Food with pharmacies
Pathmark Super Center	110	—	Food/drug combo
PURITY SUPREME			
Pharmacity Drugs	—	14	Conventional
Heartland Drugs	—	13	Deep discount
Purity Supreme Supermarkets	42	—	Conventional
Purity Supreme Superstore	6	—	Food/drug combo
Heartland Warehouse	15	—	Warehouse food
RICKEL HOME CENTERS	45	—	
LIL' PEACH CONVENIENCE STORES	63	—	

Source: Supermarkets General

TRENDS

Chains link their anniversaries to big promotions

Anniversary celebrations have been the fuel driving incremental sales gains for several major drug chains in the past year, and more chains are drawing plans to tie upcoming anniversaries into big promotional campaigns this year or next.

Among the biggest: Eckerd Drug Stores, which will mark its 35th year in business this fall with a major promotional splash, and Longs Drug Stores, which is beginning to gear up for its 50th anniversary in 1988.

"We'll be looking at it both from a promotional and company angle, and we'll try to tie in a major sales event this fall," said Ken Banks, vp of advertising for Eckerd. "We're just beginning to draw up our plans, but we'll probably kick off the event about the first of November."

Anniversary milestones have long been a source of promotional activity for the chain drug industry, many of whose members can trace their roots back several decades or more.

Marking those events can be a real public relations bonanza, conveying stability and public confidence in a drug chain and providing a platform for image-boosting media events. In the short run, such an event can propel immediate gains in sales and customer traffic with promotional tie-ins; over the long haul, it can strengthen a chain's market position and consumer trust.

"Our 50th [anniversary] was a big success, both as a promotional event and as an image-builder," noted Thrift Drug Company advertising manager Tom Sigerstad last year.

Boost employee morale

Internally, anniversary splashes can also yield an important plus as a means to bolster employee morale and involvement. Perry Drug Stores, for instance, focused on its 30th anniversary this year in its recent spring/summer merchandising seminar, and Lawton's Drug Stores in Atlantic Canada drew its 750 employees into its 100th anniversary with cash-incentive contests, costumes and free mementos.

Lawton's is marking its first century in business with a full year of promotional activities generated by both stores and headquarters, in one of the biggest such events ever hosted by any drug chain. The chain opened the year-long celebration last fall with a radio address by chairman Bill Richardson broadcast throughout Canada's Maritime Provinces. To tie into the event, Lawton's unveiled a new corporate logo and a new musical theme, based on "Lawton's 100th Birthday Celebration and Second Super Century."

Lawton's has also taken advantage of the anniversary milestone to spruce up its stores and advertising, with new, full-color circulars and in-store signs. To kick off the event with a party atmosphere, stores were filled with colorful decorations, and store employees wore straw hats and other period costumes.

Sales were encouraged with consumer giveaways, including shopping sprees and Lotto Lawton's, a scratch-card sweepstakes featuring vacations, cars and other prizes.

Perry, which marked its 30th year in business this winter, boosted sales with a special savings coupon book offering a total of more than $600 in savings to customers. The book opens with a letter to Perry customers from chairman Jack Robinson and drug store division president Mickey Kole, thanking shoppers for 30 years of business and reaffirming Perry's commitment to "the highest standards of customer service."

Vacation sweepstakes

Perry is also offering, in joint sponsorship with Pepsi-Cola, a free 10-day vacation anywhere in the world. Customers had to fill out entry blanks in the coupon book and deposit them in a Perry store to win.

"We had other big plans for our 30th, but we had to scale them back as part of our cost-cutting program," a Perry spokesman added.

Another recent milestone was Dunaway Drug Store's 60th year in business, celebrated by the Marietta, Ga.-based chain last September. The 18-unit retailer promoted the event with a major television splash in metropolitan Atlanta, as well as an extensive circular featuring significant price reductions throughout the stores. To boost traffic, Dunaway sponsored a customer giveaway featuring a grand prize of a diamond ring or a Hawaii vacation.

During the sale month, the chain also keyed into the theme by rolling back prices on a few items to 1926 levels. "We had nickel cigars, candies and Cokes, and the customers really responded to that," said chain president Bill Dunaway.

Dunaway also generated publicity with an essay contest for fifth graders, themed: "How to Stay Healthy in the 80's." Contest participants were treated to an awards banquet in January, with savings bonds presented to winners.

Dunaway termed the promotion a resounding success in boosting the chain's visibility in greater Atlanta.

Major splash planned

Also planning a major promotional splash is Newark, Del.-based Happy Harry's Discount Drugs, which celebrates 25 years in business this coming October. "We'll try to build excitement for the upcoming event, beginning this spring with some minor giveaways and building to a big giveaway event in October," noted Leigh Wilson, vp of administration, personnel and public relations for the 19-store chain. "We're planning a month-long celebration with the theme: 'Delaware's Drug Store for 25 Years,' and we hope to tie that into a major sales campaign, with a number of circulars based on the anniversary."

Not all drug chains mark significant anniversaries with big promotional tie-ins. Rite Aid has "no big promotional plans" to mark its 25th anniversary this year, a company spokesman said. Nor did Warren, Mich.-based F&M Distributors, which passed its 30th year in 1986.

Health (mental and physical)

Beauty and grooming

Consumers rank magazines No. 1 health, grooming info source

NEW YORK — Consumers ranked magazines No. 1 as a source of information on health, beauty and grooming and said they found the advertising more inviting and useful than that available through television, radio or newspapers, based on a study conducted by Audits & Surveys Inc. for the Magazine Publishers Association.

The preference spread for magazines over other media forms was widest among women readers, especially those who had attended college. Eighty-one per cent of women surveyed found magazines most informative when it came to beauty and grooming. By comparison, only 11% of that college population preferred television, and 4% selected newspapers. Less than one-half per cent would listen to the radio for beauty and grooming information; the balance had no opinion.

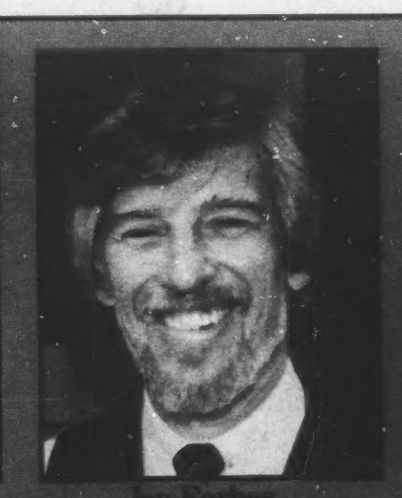
The overall U.S. average for women was 74% in favor of magazines as a beauty and grooming source. Fifty-seven per cent of U.S. men opted for magazines for this information.

When it came to health topics, television came in a clear second. Fifty-seven per cent of U.S. women preferred magazines, 23% chose television and 10% read newspapers for health-related articles.

Men voted much the same way: 54% in favor of magazines, 22% television, 12% newspapers.

In terms of advertising, 89% of women said magazines were "appealing," and 88% said the ads "keep me posted on new products." The most frequently cited pitfalls of magazine advertising included "exaggerated-/misleading" advertising 40%, and boring/monotonous, 30%. The women also found television exaggerated and misleading, but 23% more (63%) said they felt that way. Sixty-one per cent found commercials "annoying/irritating."

Vern Brunner



Jay Forbes

Ted Gladson

AHBAI meeting features speakers

PALM SPRINGS, Calif. — Vern Brunner, senior vp-marketing at Walgreen, was set to be keynote speaker at the American Health & Beauty Aids Institute (AHBAI) Mid-Year Conference, April 8 to 12 here.

Brunner's talk on Saturday, April 11, covers "current industry and business dynamics in the ethnic H&BA industry from a retailer's perspective," according to AHBAI. He will be speaking to an audience that includes executives from Supe'Rx, K mart, Kroger, Zayre and McCrory's.

In addition, *Drug Store News* publisher Jay Forbes is talking on "Strategies for Share: An Overview of Drug Store Retailing and Ethnic H&BA" on Thursday, April 9.

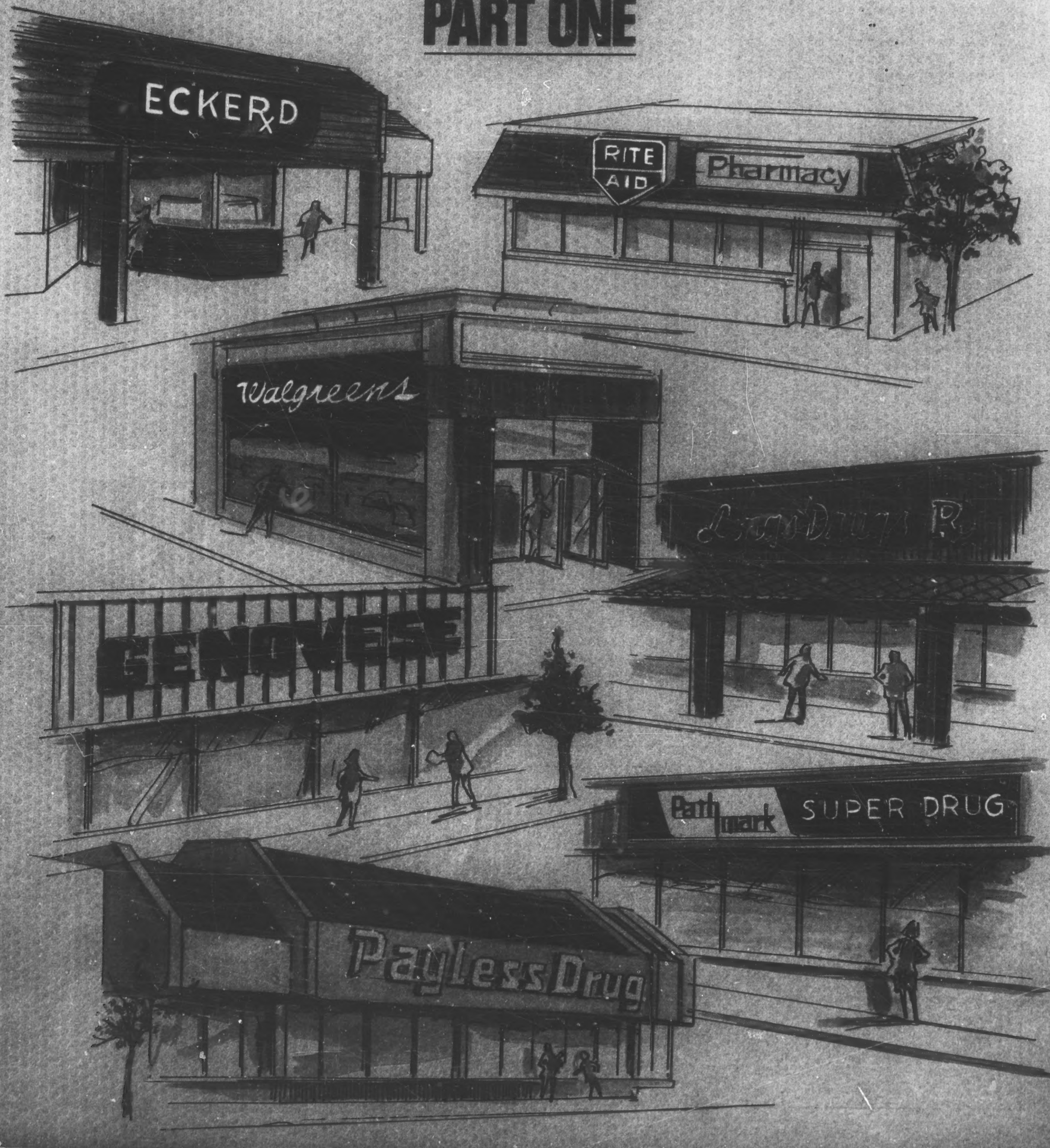
And Ted Gladson, president of Gladson & Associates, will discuss shelf space management in his presentation on "Planograming by Performance" on Friday, April 10.

AHBAI will also present awards to Walgreen, Zayre and Giant Food Stores as retailers of the year in their respective classes of trade, the association said.

DRUG STORE NEWS

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PART ONE



THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

1986: Tumultuous year for chains

Buyouts, takeover threats, acquisitions rock industry

Give 1986 an 8-plus rating on the retail drug earthquake meter.

While sales growth was modest—up just 7% for the year—the frenzied pace of leveraged buyouts and acquisitions, unfriendly takeover threats and management realignments was enough to keep things moving and shaking.

Adding to the unsteadiness: the lackluster economy, consumer wariness and fierce competitive environment.

Many companies simply scurried to the equivalent of the storm cellar, trimming whatever fat was still on the bone and cutting back store growth and diversification.

Large-scale acquisition

For others it was rock 'n roll time. Walgreens and Rite Aid, for example, mounted incendiary displays of market growth—Rite Aid with its thrust into Florida and Walgreens in all of its markets, but particularly the Northeast with its acquisition of Medi-Mart.

What's more, Jack Eckerd Corp. defied conventional wisdom that says a company should scale back growth plans after a leveraged buyout. In a move seen as both offensive and defensive, Eckerd acquired 32 Shoppers Drug Mart stores in Florida from Peoples.

On a smaller scale, Arbor Drug continued its fast-track growth from small to large regional chain by picking off Sentry Drugs in Michigan and then moving on to test the retail waters of the Carolinas.

LBO reverberations

While acquisitions added tremors to the year's news, it was the leveraged buyouts of some of the biggest companies and management changes at the highest levels that generated the heaviest shockwaves.

Eckerd began the year's LBO parade when it shook off the effects of a hostile takeover bid by Herbert and Robert Haft's Dart Group and went from publicly owned to private company via a management buyout.

Eckerd's buyout was followed by Revco's. Then came LBOs by the managements of Hook-SupeRx and Gray Drug Fair.

In all, more than $6 billion in sales volume was involved in the four deals—almost one-quarter of last year's total chain drug revenues—as well as more than 4,500 stores.

Haft role

The Haft family's Dart Group played a role in two of last year's chain drug LBO stories—a major one in Eckerd's case and a bit part in the drama leading up to the Revco buyout. Dart Group had sought a role in the Revco deal, but was rebuffed by management.

The maneuverings of the Hafts provided ongoing drama throughout the year. Shrewd, tight-lipped, yet oddly colorful, the Hafts used the millions acquired from savvy investments in real estate and retailing to mount assaults on some of the giants of retailing, including Safeway. Dart made $140 million on its Safeway investment alone.

As this article was being written, the Dart Group was bidding for yet another major retailer, Supermarkets General Corp. SGC, considered one of the better managed food/drug retailers, was clearly not happy at the prospect of Dart's possible takeover, yet its officials, in their responsibility to shareholders, had to consider that possibility along with others, including a white knight or a management LBO.

Antitakeover measures

The threat of hostile takeovers settled like an ominous cloud over the industry's public companies. During the year, chains including Walgreens, Longs, American Stores and Genovese enacted antitakeover measures. No measure could stop a really determined suitor, of course, but the companies that set up defenses wanted to make the potential pricetag seem formidable to an unwelcome bidder.

At the same time, the best defense was to keep the price of outstanding shares as close as possible to their true worth based on the value of the company. This would discourage bargain hunters looking for quick profits by putting an under valued company in to play. Vulnerable companies worked hard to keep their price/earnings ratios high.

Though the trend has been to private ownership through LBOs, one company that moved in the opposite di-

Continued on page 58

Evolving character of the chain drug industry

Chain store size	No. of companies 1976	No. of companies 1986	% change	No. of stores 1976	No. of stores 1986	% change
2-3 store companies	2,154	1,093	−49%	4,859	2,518	−48%
4-10 store companies	491	337	−31	2,599	1,901	−27
11 or more store companies	173	120	−31	11,399	17,511	+54
Total no. of companies with 2 or more stores	2,818	1,550	−45	18,857	21,930	+16

Source: Chain Store Guides

Inside 1987 Annual Report

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Pay Less NW 106
Pay 'n Save 112
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Rite Aid 97
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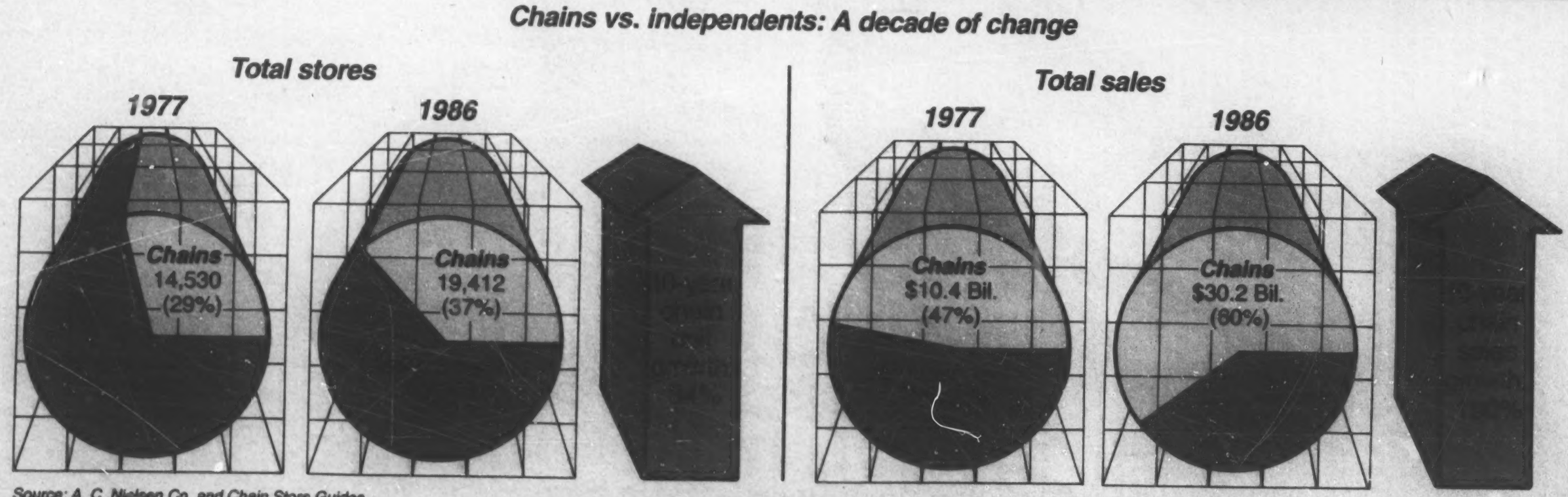
Chains vs. independents: A decade of change



Source: A. C. Nielsen Co. and Chain Store Guides

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

10-year sales share trends

$ sales in billions

Year	Total sales	Chain share	Indep. share
1986	$50.2	60%	40%
1985	47.0	60	40
1984	43.2	59	41
1983	39.7	57	42
1982	36.2	57	43
1981	33.4	55	45
1980	30.3	54	46
1979	27.2	52	48
1978	24.3	50	50
1977	22.5	47	53

Source: A. C. Nielsen Cc.

Continued from page 56

rection—from private to public ownership—was Pay 'n Save. The Seattle-based drug chain said it planned to use the proceeds from last year's sale of stock, bonds and notes to purchase Bi-Mart, the membership discount drug and general merchandise chain; to pay off some of the company's heavy debt load; and to expand its central distribution system. The chain was still struggling in the early part of this year to reverse last year's losses.

Management changes

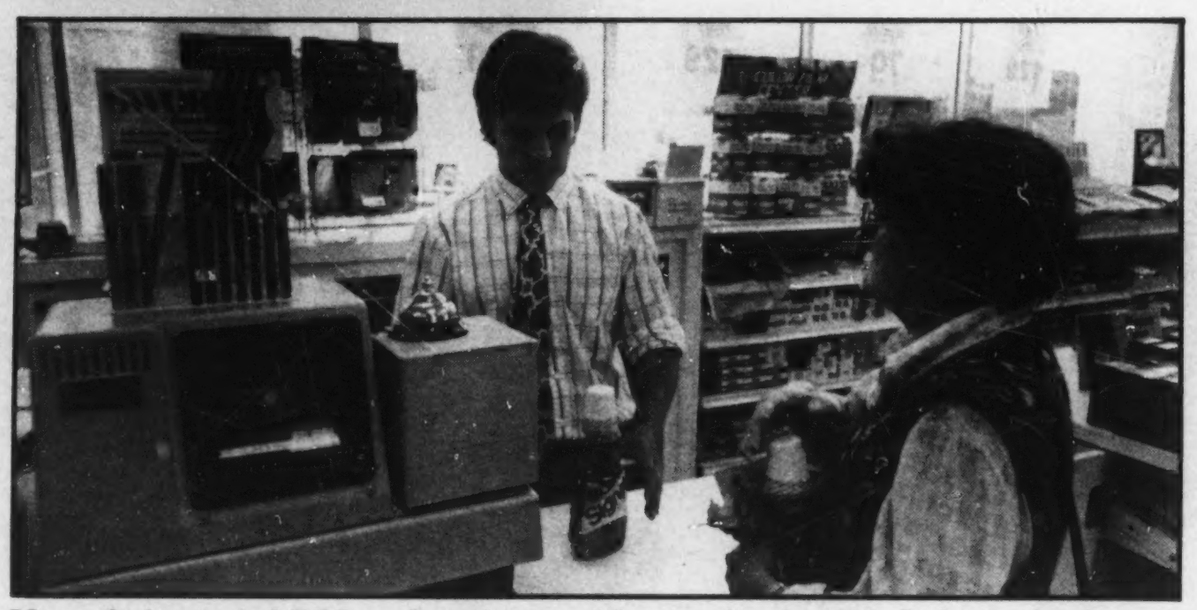
If LBOs, acquisitions and market shifts consumed a hefty portion of last year's news pages, some of the management changes that occurred were equally attention-grabbing. The changes seem to fit—indeed to magnify—the industry's mood of anxiety.

Perhaps the biggest shock was the retirement of Sheldon "Bud" Fantle, the Peoples Drug Stores chairman. Fantle had been credited with welding a small group of regional chains into a billion-dollar, multiregional retailing power. But following a record performance in 1985, Peoples slipped from profitability last year. Its trouble was blamed on problems with its new mid-Atlantic distribution center in Fredericksburg, Va., and to overly fast expansion and diversification.

Peoples' Canadian-based parent company, Imasco Ltd., named David Bloom to oversee both Peoples and Shoppers Drug Mart, Canada's largest drug chain. David Eisenberg, who had earlier been named executive vp and coo, was called on to head up Peoples' daily operations under Bloom.

In other major management surprises, Dan Herrmann resigned as president of Fay's, and Don Fox as president of Perry. Both men had been with their companies since their beginnings.

On the West Coast, the owners of Pay 'n Save tapped Gerald Nathanson, a former McCrory's exec, for the job of bringing the Seattle-based chain back to health. Nathanson, who was named vice chairman and ceo, replaced Allen Mac Culver, who resigned. Maynard Jenkins, Pay 'n Save's president and coo, later quit to join a small California retail hardware chain.



More chains tested POS cash registers with scanning in 1986. Industry leader was Rite Aid, shown above.

10-year drug store growth trend

Year	Total stores	Chain stores	Chain share	Indep. stores	Indep. share
1986	52,800	19,412	37%	33,388	63%
1985	52,500	18,550	35	33,950	65
1984	52,139	17,677	34	34,462	66
1983	50,264	16,733	33	33,531	67
1982	49,400	16,347	33	33,053	67
1981	49,310	14,664	30	34,646	70
1980	49,192	14,815	30	34,377	70
1979	48,822	15,110	31	33,712	69
1978	49,151	14,709	30	34,442	70
1977	49,397	14,530	29	34,867	71

Source: Chain Store Guides and Census Bureau

10-year sales trends

$ sales in billions

Year	Total industry	% change	Total chain	% change	Total indep.	% change
1986	$50.2	7%	$30.2	7%	$20.0	7%
1985	47.0	9	28.2	11	18.8	6
1984	43.2	9	25.5	12	17.7	5
1983	39.7	10	22.8	11	16.9	8
1982	36.2	8	20.5	11	15.7	5
1981	33.4	10	18.5	12	14.9	8
1980	30.3	12	16.4	16	13.9	7
1979	27.2	12	14.2	17	13.0	6
1978	24.3	10	12.1	16	12.2	4
1977	22.2	8	10.4	14	11.7	4

Chain sales are for companies with four or more stores.
Source: A.C. Nielsen Co.

Mass merchandisers with pharmacies

Company	Headquarters	Total stores	Number of stores with Rx depts.	% of total stores with Rx depts.
K mart	Troy, Mich.	2,086[A]	1,022	49%
Wal-Mart	Bentonville, Ark.	1,009	474	47
Fred Meyer	Portland, Ore.	94	88	94
Venture	St. Ann, Mo.	67	38	57
Pamida	Omaha, Neb.	166	30	18
Target	Minneapolis	252	18	7
Fedco	Santa Fe Springs, Calif.	9	9	100
Cook United	Maple Heights, Ohio	29	8	28
Ames	Rocky Hill, Conn.	321	8	3
Gold Circle	Worthington, Ohio	76	7	9

Source: Drug Store News *survey*
[A]K mart figure are U.S. only

Industry sales gains reflect solid progress

The pace of leveraged buyouts and management changes overshadowed the industry's sales story, but the year was not without solid achievements.

For one, the drug store industry broke through the $50-billion barrier for the first time. And though the 7% growth rate was relatively modest compared with previous years' double-digit gains, it was nevertheless several points above inflation in a year in which drug retailers were subjected to withering fire from price-driven competitors.

Significantly, independents matched the chains' percentage gains in sales—though not, of course, in dollars. Independents, more than 60% of whose sales volume derives from prescriptions, benefited from the higher inflation rate of pharmaceuticals.

Chains also emphasized their pharmacy departments, including computerized record-keeping and fast service, in order to build sales. They also got into mail-order and nursing home pharmacy services and bid vigorously for HMO and other third-party business.

The emphasis on pharmacy was just the centerpiece of an overall strategy to focus on traditional drug store categories and to hack away at the accretion of oddball merchandise that had found its way into drug stores over the years.

In addition, the chains began to experiment with a variety of new formats to enhance sales, formats with stronger presentations of key image departments like cosmetics and greeting cards.

The new formats featured better department adjacencies based on a deeper understanding of how customers—largely women—shop drug stores, as well as on the demographics of various markets.

The drug chains also continued to improve their product mix based on increasingly sophisticated front-end movement information.

Chains put more and more emphasis on pharmacists communicating with patients, and pharmacy departments led the way in 1986 sales growth.

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Store format experimenting increases in '86

The year 1986 ushered in a new wave of store format experimentation and also brought more blurring of lines among traditional drug, food and mass merchandise retailers.

Woolworth, for example, tried out a new specialty cosmetics format called Face Fantasies in three mall locations in suburban Atlanta markets. The move by the variety store merchandiser into cosmetics followed its earlier plunge into the deep discount drug store arena, via its Rx Place stores.

The 1,500-sq.-ft. Face Fantasies outlets feature some 3,000 sku's, mainly in the budget- and mid-priced range, a direct threat to the assortments carried by drug stores.

Off-price hybrid

While Woolworth was experimenting with another specialty format, Pay Less was beginning to roll out a new off-price hybrid to add to its array of retail formats. The new prototype, called Wonder World, made its debut in over-stored Bozeman, Mont.

Pay Less' new 55,000-sq.-ft. hybrid draws on the strengths not only of its traditional super drug stores, but also of Value Giant, the Oregon-based retailer's deep discount drug and general merchandise outlet, and its parent K mart.

While Wonder World has many of the features of the three—including off-price apparel—the first handful of stores, in Montana and Texas, contained no pharmacies, a cost-saving measure in the low-margin stores.

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The elderly continue to grow in importance as drug store customers, and chains more and more are emphasizing service to this key demographic group.

Top 50 American drug chains: 1986 dollar volume

Rank	Headquarters	Drug store sales (in millions)	% change	Store totals	% change	Fiscal year ended
1. Walgreens	Deerfield, Ill.	$3,520	17	1,273	16	8/31/86
2. Osco Drug[C]	Chicago	3,000[E]	NA	666	25	1/31/87
3. Revco	Twinsburg, Ohio	2,743	15	2,031	7	5/31/86
4. Eckerd	Clearwater, Fla.	2,300[E]	NA	1,611	6	1/31/87
5. Longs	Walnut Creek, Calif.	1,635	10	222	7	1/29/87
6. Rite Aid	Shiremanstown, Pa.	1,602[A]	13	1,590[A]	14	2/28/87
7. Peoples (Imasco Ltd.)	Alexandria, Va.	1,274[E]	4	830[E]	– 1	3/28/87
8. Thrifty	Los Angeles	1,200	11	594	7	11/30/86
9. CVS (Melville Corp.)	Woonsocket, R.I.	1,181	16	629	6	12/31/86
10. Pay Less NW (K mart)	Wilsonville, Ore.	1,123[E]	12	219	22	1/31/87
11. Hook SupeRx Inc.[B]	Cincinnati	1,000[E]	NA	686	NA	8/31/87
12. Thrift (JC Penney)	Pittsburgh	666[L]	9	391	6	1/31/87
13. Gray Drug Fair	Cleveland	578[E]	(14)	358	(18)	12/31/86
14. Pay 'n Save	Seattle	555	16[E]	140	31	11/1/86
15. Fay's	Liverpool, N.Y.	452	2	173[K]	11	1/31/87
16. Drug Emporium	Worthington, Ohio	425[E]	NA	112	NA	12/31/86
17. Perry[D]	Pontiac, Mich.	487	27	203	6	10/31/86
18. Brooks (Compact Video)	Pawtucket, R.I.	397	9	384	(9)	12/31/86
19. K & B	New Orleans	363[E]	5	147	6	9/30/86
20. Genovese	Melville, N.Y.	271	16	79	5	1/30/87
21. Dart	Landover, Md.	262	1	81	8	7/31/86
22. Medicine Shoppe	St. Louis	262	22	641	13	9/30/86
23. Supermarkets General Drug Store Division[F]	Woodbridge, N.J.	249	19	65	12	1/31/87
24. F & M	Warren, Mich.	249	25	28	27	10/3/86
25. Snyder Drug	Minnetonka, Minn.	215	13	55	0	7/31/86
26. Big "B"[G]	Birmingham, Ala.	210	20	163	23	1/31/87
27. Arbor Drug	Troy, Mich.	152	26	52	19	7/31/86
28. Duane Reade	Long Island City, N.Y.	150	15	26	0	10/31/86
29. Rock Bottom	Port Washington, N.Y.	140	12	22	0	1/31/87
30. Super D (Malone & Hyde)	Memphis	109	10	105	6	8/31/86
31. Marc's	Cleveland	103	NA	7	40	6/30/86
32. Kerr	Raleigh, N.C.	97	14	70	21	6/30/86
33. Discount Drug Mart	Medina, Ohio	94[E]	8	22	10	3/31/87
34. Drug Fair of N.J. (Community Distributors)	Somerville, N.J.	90	32	21	NA	7/31/86
35. Phar-Mor	Youngstown, Ohio	89[E]	NA	22	47	6/30/86
36. Harco	Northport, Ala.	87[E]	18.5	60	11	7/31/86
37. Medicare-Glaser[H]	St. Louis	84[E]	8	93	8	3/31/87
38. La Verdiere's	Winslow, Me.	83[E]	NA	60	0	1/3/87
39. Taylor Drugs	Louisville, Ky.	78[E]	NA	45	(2)	9/30/86
40. Thrifty/White	Minneapolis	77	NA	53	NA	4/30/87
41. Rix Dunnington[I]	Auburnvale, Mass.	75	15	114	– 1	1/31/87
42. Bill's Drug	Lafayette, Calif.	74[E]	NA	25	0	3/31/87
43. A.D. Clark	Los Angeles	73[E]	NA	19	0	12/31/86
44. Standard	Richmond, Va.	69	4	67	2	3/31/87
45. Medi-Save[J]	Baton Rouge, La.	67[E]	NA	154	5	5/31/86
46. Wellby Super Drug (Hannaford)	Portland, Ore.	59	18	37	3	1/3/87
47. Begley Drug	Richmond, Ky.	55	10	49	9	3/31/87
48. Kinney Drug	Gouverneur, N.Y.	52	10	30	7	12/31/86
49. Pic 'n Save	Jacksonville, Fla.	52[E]	NA	41	2	12/31/86
50. Union Prescription Centers	Milwaukee	42	NA	93	0	12/31/86

[A]Running 12 mos. ended Nov. 28, 1986. Gains are over the comparable period ended Nov. 30, 1985.
[B]Includes 375 Hook stores, 313 SupeRx stores, 26 Hook convalescent aids stores and 12 Drug Worlds.
[C]Does not include sales from food/drug combos.
[D]Includes sales from 53 drug store/auto/home center stores. Does not include separate autoparts or health care specialty stores.
[E]Estimate.
[F]Includes sales from 22 deep discount drug stores, but not from 127 food stores with pharmacies.
[G]Includes 150 drug stores, 5 home health care centers, 3 deep discount stores and 5 B-Mart combos.
[H]Includes 50 professional pharmacy stores and 43 full-line drug stores plus sales from medical service division.
[I]Operates 42 freestanding drug stores and 72 leased pharmacy departments in mass merchandise stores.
[J]Has 18 stores in medical office buildings and 11 freestanding, 103 licensed pharmacy departments in mass merchandise stores and 22 in non-retail institutions.
[K]Includes 13 Wheels and 5 Paper Cutter stores.
[L]Does not include mail-order or leased depts. in JC Penney stores.

Source: Drug Store News 1987 *Chain Drug Survey*

Top Canadian drug chains

Company	Headquarters (parent)	Drug store sales latest fiscal year (in millions Canadian)	% change	Store totals	% change	Fiscal year ended
1. Shoppers Drug Mart (Imasco Ltd.)	Toronto	$1,800[E]	16%	563	30%	3/31/87
2. Pharm-Escomptes Jean Coutu	Longeuil, Quebec	422	16	89	11	5/31/86
3. Boots (Boots United Kingdom)	Toronto London	350[E]	NA	180	– 1	12/31/86
4. Big V	London, Ont.	185	25	85	8	9/30/86
5. Kent Drug	Mississauga, Ont.	88	10	72	0	1/27/87

Source: *Drug Store News* 1987 Chain Drug Survey [E]Estimate

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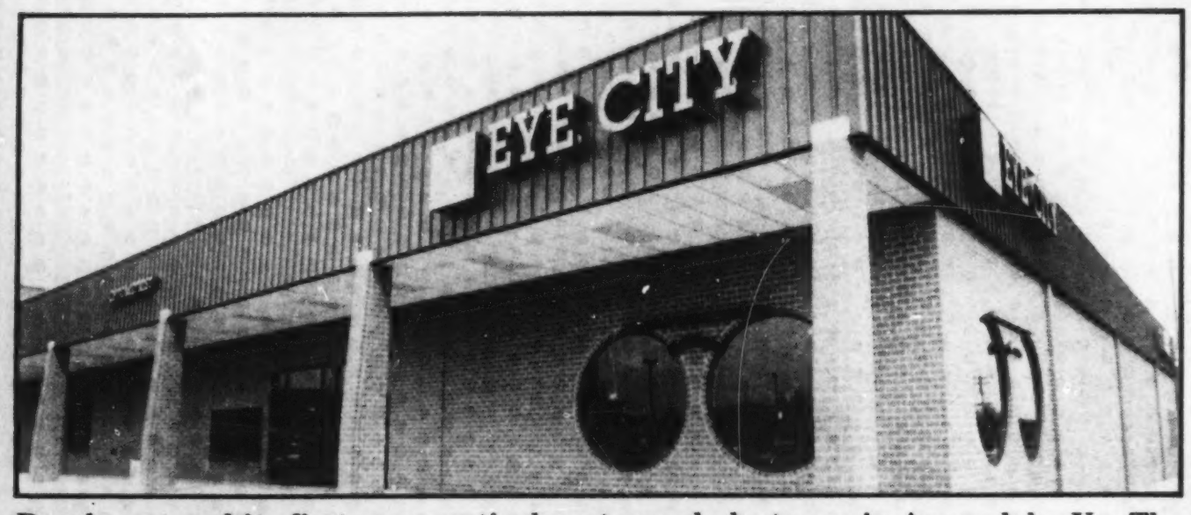

Peoples opened its first super-optical center early last year in Annandale, Va. The 13,000-sq.-ft. Eye City offers 6,000 frames with price points ranging from $9.88 to $309.88 in a self-service retail environment.

Retail diversification of major chains

Company	Store type	No. of stores '86	No. of stores '87
Walgreens	Home health	5	4
	Restaurants	94	153
Eckerd	Home health	6	8
	Eye care superstores	5	6
	Optical	135	110
Rite Aid	Home health	5	8
	Deep discount	20	25
	Auto parts	25	59
	Book stores	15	39
Thrifty	Sporting goods	86	134
	Discount auto parts	64	0
Perry	Home health	5	5
	Deep discount	4	8
	Auto parts	176	226
Peoples	Deep discount drug	5	9
	Home health	4	4
	Optical freestanding	5	4
	Eye care superstore	1	1
	Restaurants	NA	5
Begley	Home health care	6	6
	Dry cleaning stores	131	132
Big B	Home health care	6	5
	Food/drug combos	5	5
SupeRx	Home health care	NA	1
	Deep discount	21	12
Fay's	Auto parts	8	11
	Optical	NA	6
	Stationery	4	5
Medicare-Glaser	Optical	12	8
	Home health	1	1
Dart	Deep discount drug	5	5
Medi-Save	Optical	NA	1
Genovese	Photo supplies	NA	1
Harco	Home health care	NA	11
	Auto parts	NA	15
Snyder	Deep discount drug	NA	1
Thrifty/White	Home center	NA	1
Rix Dunnington	Home health care	NA	1
Drug Fair of N.J.	Deep discount drug	NA	8
Marc's	Restaurants	NA	2
	Close-out	NA	1
Shoppers Drug Mart	Home health care	NA	14
	Deep discount	NA	5

Source: Drug Store News *1987 Chain drug survey*

Top 50 American drug chains: 1986 store totals

Rank	Headquarters	1986 Total stores	% change vs. year ago
1. Revco	Twinsburg, Ohio	2,031	8%
2. Eckerd	Clearwater, Fla.	1,611	6
3. Rite Aid	Shiremanstown, Pa.	1,590	14
4. Walgreens	Deerfield, Ill.	1,273	16
5. Peoples (Imasco Ltd.)	Alexandria, Va.	820	– 1
6. Hook SupeRx	Cincinnati	686	NA
7. Osco Drug (American Stores)	Salt Lake City	666	25
8. Medicine Shoppe	St. Louis	641	13
9. CVS (Melville Corp.)	Woonsocket, R.I.	629	6
10. Thrifty	Los Angeles	594	7
11. Thrift (JC Penney)	Pittsburgh	391	6
12. Brooks (Compact Video)	Pawtucket, R.I.	384	– 9
13. Gray Drug Fair	Cleveland	358	–18
14. Longs	Walnut Creek, Calif.	222	7
15. Pay Less NW (K mart)	Wilsonville, Ore.	219	22
16. Perry[A]	Pontiac, Mich.	210	6
17. Fay's[F]	Liverpool, N.Y.	173	11
18. Big B[C]	Birmingham, Ala.	163	23
19. K & B	New Orleans	147	6
20. Medi-Save[B]	Baton Rouge, La.	146	0
21. Pay 'n Save	Seattle	140	31
22. Rix Dunnington	Auburnvale, Mass.	114	– 1
23. Drug Emporium	Worthington, Ohio	112	NA
24. Super D	Memphis	105	6
25. Union Prescription Centers	Milwaukee	93	0
26. Medicare-Glaser[D]	St. Louis	93	8
27. Dart	Landover, Md.	81	8
28. L. F. Widmann	McElhattan, Pa.	80	1
29. Genovese	Melville, N.Y.	79	5
30. Kerr	Raleigh, N.C.	70	21
31. Standard	Richmond, Va.	67	2
32. Supermarkets General[E] Drug Store Div.	Woodbridge, N.J.	65	12
33. Harco	Northport, Ala.	60	11
34. Medicap Pharmacies	Des Moines, Iowa	60	NA
35. La Verdiere's	Winslow, Me.	60	0
36. Snyder	Minnetonka, Minn.	55	0
37. Thrifty/White	Minneapolis	53	NA
38. Arbor	Troy, Mich.	51	19
39. Begley	Richmond, Ky.	49	9
40. Bee Discount	Hillside, Ill.	48	23
41. Taylor	Louisville, Ky.	45	– 2
42. Wil-Car Enterprises	Portsmouth, Ohio	45	NA
43. Kare Drugs	St. Louis	45	NA
44. Pic 'n Save	Jacksonville, Fla.	41	2
45. True Quality	McKinney, Tex.	41	0
46. Wellby Super Drug (Hannaford Bros.)	Portland, Ore.	37	3
47. White Drugs	Jamestown, N.D.	37	NA
48. Thayer Pharmacies	Stoughton, Me.	31	NA
49. Kinney Drug	Gouverneur, N.Y.	30	7
50. F & M	Warren, Mich.	28	27

[A] Includes combo drug/automotive stores.
[B] Includes licensed pharmacies in mass merchandisers plus stores in medical office buildings and freestanding stores.
[C] Includes 150 drug stores, 5 home health care centers, 3 deep discount stores and 5 B-Mart combos.
[D] Includes professional pharmacy stores and full-line drug stores.
[E] Includes freestanding drug stores, but not pharmacies in food/drug combo stores.
[F] Includes 13 Wheels and 5 Paper Cutter stores.

Sources: *Drug Store News* 1987 Chain Drug Survey, Lebhar-Friedman Chain Store Guides.

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Home health care as a category gained ground with chains in 1986, both in freestanding home health units and in-store departments.

Chains try new formats in' 86

Continued from page 61

As Pay Less put its muscle behind Wonder World, less emphasis was placed on the Key format, the downsized drug store that had been designed as an answer to the penetration of promising smaller towns. The reason: Key stores are simply not the dollar generators that Pay Less, Value Giant and Wonder World stores are.

Thrifty Corp., on the other hand, continued to move ahead with its downsized Thrifty Jr. stores, and Dart Drug remained high on its own version of a smaller format aimed at urban Washington locations.

Hypermarket format

At the opposite end of the size scale was the hypermarket format that Wal-Mart and Cullum Cos. began planning as a joint venture.

The new format, to be called Wal-Mart Super Center, will be in the 150,000- to 200,000-sq.-ft. range and will use the strengths of both retail companies—Cullum in food and drug merchandising and Wal-Mart in discount general merchandise as well as drug.

The new hypermarket is slated to open at the end of this year, probably in Texas, though neither partner would confirm the location.

Deep discounting continued to hold its attraction, despite the shakeout currently going on in the industry. (*See story elsewhere in the section.*)

While supermarket retailers American Stores and Safeway have both backed away from their ventures into this highly volatile market, Albertson's decided to get its feet wet with its new Maxx store in Boise, Idaho, Albertson's hometown.

Deep discount thrust

The 55,000-sq.-ft. prototype features a full-line deep discount drug store, which accounts for 45% of the space, and a complete supermarket. Price cuts were characterized as very deep.

Vons Grocery Company was another food retailer that launched a new prototype featuring a complete deep discount drug store within a superstore format. The new prototype, called Vons Pavilions, has the added wrinkle of having very upscale specialty food departments.

For an unusual mixing of formats, the year's top prize went to Super America, the convenience store/gas station chain whose parent is Ashland Oil.

In Minneapolis, Super America opened a new 10,000-sq.-ft. C-store with gas station that featured a pharmacy. While independents have mixed gasoline and Rx in the past, this is believed to be the first for a chain. The company plans 10 to 12 outlets in the next three years.

Chain drug store remodels

Company	1985	1986	% of total stores—1986
Eckerd	NA	233	14%
Shoppers Drug Mart	175	225	40
Walgreens	61	89	7
Pay 'n Save	0	80	57
Rite Aid	NA	75	5
Thrift	NA	40	10
Medicine Shoppe	26	31	5
Pay Less NW	9	30	14
Medi-Save	20	30	21
Thrifty	NA	30	5
Big B	30	17	11
Taylor	11	11	25
Supermarkets General Drug Store Division	NA	10	15
Pharm-Escomptes Jean Coutu	11	10	11
Big V	NA	10	12
Genovese	6	8	10
Harco	6	6	10
Rock Bottom	6	6	27
Fay's	NA	6	4
Snyder	6	6	11
Perry	5	5	2
Rix Dunnington	5	5	12
Duane Reade	4	4	15
Kerr	4	4	6
Medicare-Glaser	6	4	4
Wellby	NA	4	11
Thrifty-White	NA	3	6
Marc's	NA	3	43
Standard	NA	3	4
Discount Drug Mart	3	3	14
Kinney	2	2	7
Begley	3	2	4
Drug Emporium	0	2	2
Dart	NA	2	2
K & B	NA	2	1
La Verdiere's	NA	2	3
A. D. Clark	0	1	5
Bill's	0	1	4
Phar-Mor	1	1	5

Source: Drug Store News *survey*

Average chain drug store performance

Company	Store size	Sell space	Sales per store	Sales per sq. ft. of selling space
Duane Reade	5,000	5,000	$ 5.8M	$1,160
Marc's	25,000	18,000	14.7M	817
Medicine Shoppe	1,050	650	408,730	629
Pharm-Escomptes	8,600	7,700	4.7M	610
F & M	25,000	17,500	8.9M	508
Rock Bottom	15,000	13,000	6.4M	492
Snyder	11,000	8,200	3.9M	476
Big V	6,500	5,000	2.2M	440
Longs	24,000	17,000	7.4M	435
CVS	7,150	5,720	1.9M	332
Genovese	12,000	11,000	3.4M	309
Wellby	6,500	5,200	1.6M	308
Arbor	11,000	9,500	2.9M	305
Walgreens	11,700	9,300	2.8M	301
Kent	5,000	4,500	1.2M	267
Thrift	9,500	7,800	1.9M	244
Kinney	8,000	7,000	1.7M	243
Perry	11,000	10,000	2.3M	230
Drug Fair of N.J.	20,000	19,000	4.3M	226
Fay's	14,000	12,500	2.6M	208
Pay 'n Save	24,900	20,418	4.0M	196
Big B	8,700	7,200	1.3M	181
Kerr	9,600	8,400	1.4M	167
Rite Aid	6,500	6,250	1.0M	160
Thrifty/White	NA	9,213	1.4M	152
Begley	8,000	7,500	1.1M	147
Rix Dunnington	6,000	5,000	657,895	132
Dart	25,000	25,000	3.2M	128
Standard	9,100	8,500	1.0M	118
Thrifty	19,000	19,000	2.0M	105

Source: Drug Store News *1987 chain drug survey*

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Chains wheel 'n deal and market shares shift

Though not quite matching the blockbuster acquisition deals of previous years, 1986 activity nevertheless provided some interesting fireworks for market watchers.

The pace of acquisitions, in fact, was quite brisk compared to the leisurely tempo of the previous year, when relatively few blocks of stores of any magnitude changed hands.

Leading the way this past year was Rite Aid. The Shiremanstown, Pa.-based chain moved opportunistically to gather in two large groups of Florida stores, as well as smaller groups in Alabama, Georgia, South Carolina and Baltimore. Rite Aid also got another prize as part of one acquisition: SupeRx's 200,000-sq.-ft. distribution center in Melbourne, Fla.

Rite Aid got lucky in Florida because sizable blocks of stores from two major chains became available at the same time—a rare occurrence—and Rite Aid was ready with cash in hand to pick them up at a bargain price, said to be $110 million or about $500,000 a store.

The stores—106 SupeRx units and 81 Grays—were on the block because their parent companies, Kroger and Sherwin-Williams, were getting out of the drug store business to concentrate on their main sources of revenue—food and paint.

Rite Aid market presence

For Rite Aid, the Florida acquisition provided an immediate large market presence, a building block on which to base future growth in a state dominated by Eckerd and Walgreens.

Walgreens was another chain that moved opportunistically to grab an attractive chain in a region in which it had targeted future growth. The target chain was Medi Mart, and Walgreens pursued the prize avidly, finally acquiring its 66 stores from Stop & Shop, which had also decided to divest itself of its drug store business.

Walgreens has used the words "crawl, walk, run" to describe its approach to market expansion, but the Medi Mart acquisition allowed the chain to pass "crawl" and get right up to a brisk walking pace.

The divestiture of stores by Kroger also opened up an opportunity for Gerald Wolken, former president of The Cincinnati-based drug chain. Wolken had decided not to join the leveraged management buyout of the SupeRx and Hook drug store chains but grabbed at the chance to acquire 48 SupeRx stores, the bulk of them in the Phoenix market and a scattering of units in Alabama and Georgia.

Opportunity for Eckerd

For Eckerd, an opportunity came when Peoples Drug Stores gave up the battle in Florida and decided to put its 31 Shoppers Drug Mart stores on the market.

Eckerd leaped at the chance to purchase the stores. They offered the opportunity to add to the chain's dominant presence in Florida. The acquisition also helped to bolster Eckerd's image as aggressive and expansion-minded at a time when some observers were expecting the chain to sell off some assets in order to play down its leveraged buyout debt.

The year's acquisitions

Company	Headquarters	Acquisition	Location of Stores
Rite Aid	Shiremanstown, Pa.	115 SupeRx stores 81 Gray stores 22 Drug Fair stores 9 Harris drug stores	Florida, Alabama, Georgia Florida Baltimore South Carolina
Walgreens	Deerfield, Ill.	66 Medi Mart stores	New York, New Jersey, New England
Gerald Wolken group	Phoenix	48 SupeRx stores	Phoenix, Alabama, Georgia
Eckerd	Clearwater, Fla.	31 Shoppers Drug Marts	Florida
Thrifty	Los Angeles	15 Drug Kings 13 Guild Drug stores 4 Guys drug stores	California California California
Arbor	Troy, Mich.	19 Sentry Drug stores	Michigan
Mays	Tulsa, Okla.	11 Eckerd Drug stores	Oklahoma
Perry	Pontiac, Mich.	7 Warehouse Way stores	Michigan
Medicare-Glaser	St. Louis	5 Gasen (SupeRx) drug stores	St. Louis
	Total	446 stores	

Chain stocks hot again after a mediocre 1986

Chain drug stock performance was mixed in 1986, but since the start of the new year, the stocks have shown solid gains.

The improvement is the result of both the surge in stock prices in general and the realization by investors that there are solid values to be found in the chain drug stocks.

From the beginning of 1987 through the middle of March, the index of 13 chain drug stocks gained about 20%, as prices rose, almost without exception, in double-digit percentages.

Pay 'n Save (up 41% from Jan. 1 through March 16) led the list of gainers, followed by American Stores (+27%), Rite Aid (+26%) and Medicare-Glaser (+21%).

Also showing strong advances in the first two and a half months of the year were Arbor Drugs (+19%), Medicine Shoppe (+19%), Genovese (+18%), Walgreens (+15%), Big B (+15%) and Fay's (+13%).

In contrast to the across-the-board increases after the beginning of this year, there were more losers than gainers in 1986. For example, Perry's share price dropped 28.5% from Jan. 1 to the close of 1986, while Big B was down 25%, Medicare-Glaser 22.2% and American Stores 12.3%.

But in the midst of general decline, two particular companies stood out as strong gainers during 1986. Not coincidentally, the two chains were also the darlings of Wall Street because of their strong operating performance.

The share price of the first, Walgreens, rose 15% to $32.38 from Jan. 1 to Dec. 31, 1986, and kept on rising through the first part of the year, closing at $35.75 on March 27. Walgreens was the industry's stellar performer.

Not far behind was Rite Aid, whose stock price increased by 14% to $29.50 at the end of 1986. Rite Aid's price has also continued to rise through the first three months of the year, closing at $38.50 on March 27. That topped, by $3 a share, Rite Aid's high for all of 1986.

Longs, which has always been considered one of the industry's best managed companies, had a relatively flat year in 1986. Its stock price was down by 3.7% to $29.50 at year-end.

But net income increased strongly in the fourth quarter ended Jan. 29 and since the beginning of the year so has its stock price, which closed March 27 at $34.75, up 18% since Jan. 1.

Two new entries

The chain drug stock chart gained two new entries in 1986, Pay 'n Save and Arbor. Pay 'n Save, the Seattle-based super drug store chain, had originally been publicly owned, but had gone private via a leveraged management buyout. In 1986, it went public again through an equity offering in July.

In the second half of 1986, Pay 'n Save's share price went from a high of $16.25 down to $5.75 at year-end, as problems in its stores and distribution center walloped bottom-line performance. The chain lost almost $50 million in 1986.

But its stock price has begun to move up again, partly the result of improving operations and a small profit in the first quarter of 1987. Pay 'n Save stock stood at $7.75 on March 27, a gain of 35% since Jan. 1.

1986 Chain drug stock performance

Company	1986 stock prices High	Low	Last	'86% change	3/16/87 price	3/16/87 P/E
American Stores	$71.25	$51.63	$54.38	−12.3%	$69.00	18.2
Arbor	21.50	14.75	17.25	NA	20.50	22.8
Begley	23.50	16.25	17.00	+ 4.6	18.50	21.0
Big B	18.75	11.63	11.63	−25.0	13.38	21.9
Fay's	11.75	8.50	8.62	− 1.5	9.75	65.0
Genovese	16.63	10.38	11.75	+ 5.6	13.88	27.2
Longs	38.75	26.63	29.50	− 3.7	33.88	19.0
Medicare-Glaser	5.00	3.38	3.50	−22.2	4.25	NM
Medicine Shoppe	32.00	21.75	29.63	+23.5	35.25	33.3
Pay 'n Save	16.25	5.25	5.75	NA	8.13	NE
Perry Drug	20.88	12.00	12.25	−28.5	13.50	38.6
Rite Aid	35.50	24.25	29.50	+14.0	37.25	20.8
Walgreens	39.50	24.88	32.38	+15.1	37.38	23.2

NE Negative earnings
NM No meaningful figure
Source: Media General Financial Services

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Deep discounting secures high-performance niche

Deep discounting—once considered just a fad—is now firmly entrenched in today's drug store retailing environment. There are an estimated 400 of these retailing powerhouses in operation, capturing between 3% and 4% of total drug store volume.

During 1986, the nation's deep discounters continued to instill fear in the competition. When these behemoths open in new markets, they continue to steal business away from traditional outlets. It is no surprise that many major chains now operate deep discount units of their own. In other cases, traditional operators have slashed prices on select sku's to beat the deep discounter at its own game.

A mature and well-managed low margin store can pump out annual sales as high as $10 million. It is the allure of that volume that has sent many chains and entrepreneurs scurrying to open deep discount units. In fact, there are approximately 32% more units this year than last.

Handful reach $10M sales

But in reality, says Gary Wilber of Columbus, Ohio-based Drug Emporium, only a handful of units actually reach the lofty $10 million sales mark.

It is estimated that fewer than 25 stores—including several Drug Emporiums and Marc's and Shulmans—generate over $10 million. The true average is closer to $5 million. However, that is well above the $2 million needed to break even and higher than the average annual volume in a drug store. A store needs two to three years to mature.

But procuring merchandise is a precarious situation for a deep discount store. It is a tricky balance and one that requires buying to hover around 80% on deal. Location, too, is critical to a deep discounter's success. Without traffic, the concept dies.

Year of shakeout

In fact, while 1986 was a year for many chains to enter the fray, it was also a year for a shakeout. Safeway abandoned its Drugs For Less because of losses in the "several multiples of seven figures," said a Drugs for Less source. All 13 of the stores, which averaged 25,000 to 30,000 sq. ft., were put up for sale. The stores needed to hit $85,000 a week in sales to break even; but the average DFL was only producing $60,000.

Warehouse Way, a seven-store chain in the Detroit area once owned by Chatham Supermarkets, also fell prey to anemic results. Perry Drug scooped up the sites during 1986. Although Perry operates eight deep discount stores, these units will become traditional Perry outlets.

Despite the defeats, there are operators expanding the concept. The most aggressive is indeed Drug Emporium. However, Drug Emporium is growing more via franchise this year than last year, according to Wilber. Currently, Drug Emporium operates 36 company-owned units, 18 joint ventures and 66 franchise units. Of the 30 to 40 new units on the drawing board, about 70% will be franchised operations.

Deals and locations

"It's funny," said Wilber, "people look for a strategy in this. But it all comes down to what deals and locations are right at the right time."

During 1986, Drug Emporium continued its onslaught into the Philadelphia market where it now has 14 units, with two planned for a summer debut.

Drug Emporium also shook up Atlanta last year with the opening of two more units, bringing the total to 16. Denver, Baton Rouge, La., and Richmond, Ky., were other growth markets for Drug Emporium last year.

The chain has become such an important retailer that suppliers seek it out when "shopping" a market. Says an executive from one large cosmetics firm,

Continued on page 82

1. Drug Emporium	Worthington, Ohio	$425[E]	NA	112	NA
2. F & M	Warren, Mich.	249	25	28	27
3. Rock Bottom	Port Washington, N.Y.	140	12	22	0
4. Heartland (Supermarkets General)	N. Billercia, Mass.	113[E]	NA	13	– 7
5. Marc's	Cleveland	103	NA	7	40
6. Phar-Mor	Youngstown, Ohio	89[E]	NA	22	47
7. Howie's/Carnevale (Shoppers Drug Mart)	Toronto	81[E]	NA	17	143
8. Freddy's (Melville Corp.)	Woonsocket, R.I.	68	61	12	70
9. Drug World (SupeRx)	Cincinnati	48[E]	NA	12	– 25
10. Drug Palace (Rite Aid)	Shiremanstown, Pa.	47[E]	NA	25	108
11. Cost Cutters (Community Distributors)	Somerville, N.J.	34[E]	NA	8	NA
12. Pathmark (Supermarkets General)	Edison, N.J.	33[E]	NA	9	50
13. Drug Castle (Brown)	Springfield, Ohio	30[E]	NA	7	40
14. A. L. Price (Perry Drug)	Detroit	30[E]	NA	8	60
15. Dot (Wal-Mart)	Bentonville, Ark.	28[E]	NA	6	200
16. Wonder World (Pay Less NW)	Wilsonville, Ore.	28[E]	NA	14	NA
17. Bud's (Peoples)	Alexandria, Va.	28[E]	NA	9	200
18. Joel and Jerry's	Tampa, Fla.	20[E]	NA	7	NA
19. Jax's (Fisher Foods)	Cleveland	18[E]	NA	2	0
20. Get It For Less (Revco)	Twinsburg, Ohio	16[E]	NA	4	33
21. Total Plus (Dart)	Landover, Md.	16[E]	NA	5	NA
22. Ike's (Malone & Hyde)	Memphis	16[E]	NA	2	0
23. Cecille's	Detroit	14[E]	NA	1	0
24. Value Giant (Pay Less NW)	Wilsonville, Ore.	14[E]	NA	2	– 33

The estimated 400 deep discounters in operation captured between 3% and 4% of total drug store volume.

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In 1987, deep discounters say the challenge is to remain unique and achieve better management.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

1987 drug chains'

Total corporate sales
(add 000,000)

Company	FY ends	'86	'85	'84	'83	'82
Walgreens	8/31/86	$3,661	$3,162	$2,745	$2,360	$2,039
Revco	5/31/86	2,743	2,396	2,228	1,792	1,554
Rite Aid	2/28/87	1,757	1,564	1,360	1,223	1,049
Longs	1/29/87	1,635	1,480	1,376	1,214	1,223
Perry	10/31/86	648	552	373	285	244
Fay's	1/31/87	452	445	367	312	270
Genovese	1/30/87	271	233	220	193	158
Big B	1/31/87	210	175	148	117	87
Arbor	7/31/86	151	120	N.A.	N.A.	N.A.
Medicare-Glaser	3/31/86	86	82	77	69	57
Begley	3/31/86	70	66	61	56	49

Drug store units

Company	'86	'85	'84	'83	'82
Revco	2,031	1,898	1,778	1,661	1,593
Rite-Aid	1,586	1,372	1,275	1,148	1,055
Walgreens	1,273	1,095	1,002	941	833
Longs	222	208	191	178	173
Perry	203	191	146	122	125
Fay's	155	143	125	102	92
Big B	150	126	114	99	83
Medicare-Glaser	86	88	101	101	89
Genovese	79	75	77	72	66
Arbor	52	43	N.A.	N.A.	N.A.
Begley	40	42	45	43	47

Sales per average store
(add 000)

Company	'86	'85	'84	'83	'82
Longs	$7,367	$7,155	$7,203	$6,823	$6,493
Genovese	3,427	3,107	2,861	2,691	2,404
Fay's	2,916	3,112	2,934	3,062	2,938
Arbor	2,913	2,802	N.A.	N.A.	N.A.
Walgreens	2,769	2,765	2,609	2,379	2,179
Perry	2,399	2,007	1,983	2,012	1,954
Revco	1,351	1,262	1,253	1,079	976
Begley	1,321	1,279	1,022	1,010	802
Big B	1,288	1,190	1,299	1,182	1,053
Rite Aid	1,108	1,057	1,017	1,066	938
Medicare-Glaser	920	909	760	690	651

Net-to-sales ratio

Company	'86	'85	'84	'83	'82
Rite Aid	4.4%	4.3%	4.8%	5.1%	4.8%
Arbor	3.5	3.0	N.A.	N.A.	N.A.
Walgreens	2.8	3.0	3.1	3.0	2.7
Longs	2.4	2.5	2.9	3.0	2.8
Big B	2.1	2.3	2.9	3.0	2.9
Revco	2.1	1.6	4.2	3.7	3.2
Perry	0.9	1.8	2.1	1.6	1.2
Fay's	0.9	0.6	2.4	2.6	2.0
Begley	0.9	1.4	1.2	1.4	0.5
Genovese	0.8	1.2	1.9	2.0	1.7
Medicare-Glaser	*	0.2	3.8	1.4	0.1

*Reported net loss in fiscal 1986

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

financial scorecard

Net income
(add 000)

Company	'86	'85	'84	'83	'82
Walgreens	$103,137	$94,169	$85,446	$69,789	$56,064
Rite Aid	77,984	62,547	69,936	62,167	49,885
Revco	56,934	38,906	93,411	66,470	49,638
Longs	38,594	37,718	40,094	36,387	30,890
Perry	5,878	9,575	7,650	4,545	2,868
Arbor*	5,319	3,646	N.A	N.A.	N.A.
Big B	4,470	4,039	4,442	3,471	2,541
Fay's	4,098	2,787	8,679	8,103	5,479
Genovese	2,035	2,929	4,137	3,856	2,646
Begley	701	695	733	807	229
Medicare-Glaser	**	161	1,104	970	76

*Pro forma
**Net loss for FY 86

Gross margin %

Company	'86	'85	'84	'83	'82
Begley	37.9%	38.0%	33.9%	33.4%	31.0%
Medicare-Glaser	33.4	34.1	34.2	33.1	33.2
Perry	31.1	31.7	31.1	29.9	29.8
Walgreens	30.3	30.7	30.7	30.6	30.5
Arbor	29.2	28.3	N.A.	N.A.	N.A.
Big B	29.7	29.2	29.3	29.8	29.6
Genovese	29.1	28.9	29.7	29.9	29.9
Rite Aid	28.6	28.7	29.3	28.2	27.1
Revco	26.3	25.1	28.1	27.4	27.0
Fay's	26.8	23.7	25.5	25.6	24.9
Longs	24.1	24.2	24.0	24.6	24.1

Expense Ratio*

Company	'86	'85	'84	'83	'82
Longs	19.5%	19.3%	—	—	—
Rite Aid	19.7	19.5	17.5%	19.9%	16.2%
Fay's	23.6	20.8	20.2	19.5	19.4
Revco	21.7	21.7	19.1	19.0	19.6
Arbor	22.8	22.7	N.A.	N.A.	N.A.
Walgreens	25.0	24.2	24.1	24.4	25.1
Big B	24.3	24.2	23.2	23.7	24.1
Perry	28.2	27.8	26.2	25.9	26.1
Genovese	27.5	28.1	24.7	25.0	25.3
Medicare-Glaser	33.6	32.9	28.9	28.3	30.1
Begley	49.6	47.2	44.8	42.7	37.8

*Excludes depreciation and amortization costs

Return on investment %

Company	'86	'85	'84	'83	'82
Arbor	24.4%	38.9%	N.A.	N.A.	N.A.
Walgreens	19.9	21.0	22.3	21.4	18.7
Rite Aid	19.6	16.6	20.6	21.3	19.1
Longs	13.3	13.5	—	—	—
Big B	12.9	12.5	15.9	14.6	11.5
Revco	12.5	8.6	22.7	20.2	17.4
Genovese	8.1	12.7	19.3	21.3	16.1
Perry	7.4	13.3	12.7	11.5	11.2
Fay's	6.8	4.6	15.6	20.8	23.4
Begley	6.8	7.1	7.5	8.6	2.5
Medicare-Glaser	*	**	27.9	21.6	1.8

*Reported net loss for fiscal year
**Less than 1%

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Combos accelerate invasion of drug chain turf

It was a dynamic year for the combo format, with some of the best and most innovative combination stores making splashy debuts.

Combos, defined by A. C. Nielsen as stores racking up at least $12 million per year in stores exceeding 30,000 sq. ft., now represent 7% of the total supermarket universe and contribute a hefty portion of total sales. Combos produce H&BA volume two times that of a discount store or drug store, according to Nielsen data. Combos sell twice as many vitamins as even a strong chain drug unit.

It is not surprising that some of the nation's most aggressive operators have accelerated the opening of combination stores. And that brings mixed blessings for drug store operators. For the drug operations that have branched into combos, the payoff has been higher traffic brought about by the presence of food. But for most drug chains, the onslaught of combination store competition has eroded their business.

Duplicates mix

That is because combination units now house a mix almost duplicating that of a drug store. With these units devoting at least 25% of available space to H&BA and general merchandise, the combination store can now go broad and deep with its assortments.

Recent Nielsen numbers actually show combos stocking more sku's than a drug operation. In the dentifrice classification, for instance, the average number of sku's in a combo is 194, compared with only 90 at a chain outlet.

Cincinnati-based Kroger is so enamored with the combination concept that it recently shed its Hook and SupeRx drug store divisions to concentrate solely on combos.

There are currently 491 combos under the Kroger banner, and all new stores will be combos, according to David Schwartz, vp-grocery, drug and general merchandise. Kroger devotes a whopping 1,250 linear feet out of 2,688 available feet to H&BA and general merchandise in a typical combo, or just under half the total space.

"Our drug/general merchandise per cent to total is now greater than our produce, deli and bakery departments combined," said Schwartz. "And as a result, we've grown total store gross. It is no wonder it is the core of our business."

Blend of categories

Instead of using the traditional approach of domiciling H&BA on one side of the store and food on the other, Kroger integrates the categories. H&BA and cosmetics are found near the front of the store, set off by a full-service fragrance bar that rivals any chain drug operation.

Kroger is quick to jump onto new items. For example, a recent store visit found Promega fish oil in stock, Clarion color cosmetics and the new Secret Wide Solid.

"We try to be the first in the marketplace with all available items because our statistics tell us 28% of sales in H&BA are generated by new products," Schwartz said.

Pharmacy is also integral to the mix at Kroger combos. Located directly across from the cosmetics bullpen, the pharmacy is considered paramount in building H&BA volume.

"We continue to develop the pharmacists as on-site salesmen. Industry numbers show 97% of pharmacist recommendations result in sales," said Schwartz.

Other combination operators seem to agree. More than 4,000 supers now sport pharmacies, and 41% of new stores will have Rx counters, according to Food Marketing Institute research.

The pharmacy is extremely important in the new Vons Pavilions format, a new look for Vons that many consider last year's most dramatic new store.

Supermarket chains with pharmacies

Company headquarters	Total stores	No. of Stores with Rx depts.	% of total Stores with Rx depts.
1. Kroger[a], Cincinnati	1,273	543	43%
2. Safeway, Oakland, Calif.	1,910	478	25
3. American Stores, Salt Lake City	1,498	138	9
4. Albertson's, Boise, Idaho	453	166	37
5. Supermarkets General food stores[e], Woodbridge, N.J.	200	127	64
6. Lucky Stores, Dublin, Calif.	579	90	16
7. Smiths Management, Salt Lake City	93	88	95
8. Giant Food[c], Landover, Md.	140	81	58
9. Shop Rite (Wakefern Foods), Elizabeth, N.J.	176	73	41
10. H.E. Butt, Corpus Christi, Tex.	150	70	47
11. Raley's, Sacramento, Calif.	50	50	100
12. Tom Thumb/Page (Cullum), Dallas	70	47	67
13. Furr's, Lubbock, Tex.	126	45	36
14. Vons, El Monte, Calif.	191	44	23
15. Giant Open A/c, Norfolk, Va.	65	39	60
16. Farm Fresh, Norfolk, Va.	65	39	60
17. Randall's, Houston	35	31	89
18. Wegman's, Rochester, N.Y.	39	30	77
19. Grand Union[b], Elmwood Park, N.J.	368	28	8
20. Smitty's Super Valu, Phoenix, Ariz.	22	18	82
21. Stop 'n Shop, Quincy, Mass.	113	17	15
22. Eberhard's Foods, Hudson, Wis.	15	15	100
23. Carr's Quality Centers, Anchorage, Ala.	13	13	100
24. Bruno's Food Markets, Dothan, Ala.	13	13	100
25. Bruno, Birmingham, Ala.	98	12	12
26. A&P Supermarkets[f], Montvale, N.J.	1,002	10	1
27. Foodway, Fayette, Ala.	27	9	33
28. Dierberg, Chesterfield, Mo.	10	5	50
29. Big B, Birmingham, Ala.	5	5	100
30. Randall's, Mitchell, S.D.	30	4	13
31. Savory Markets, Rockford, Ill.	69	2	2
32. Stock 'n Save (Affiliated), Corpus Christi, Tex.	9	3	33
33. Smitty's, Scottsdale, Ariz.	3	2	67
34. Hornung's, Pewaukee, Wis.	200	1	1

[a]Includes 1,035 Kroger stores and 385 with pharmacies, and 241 Dillon stores with 158 pharmacies.
[b]Supermarkets General owns Pathmark Foods and Purity Supreme.
[c]Giant includes one freestanding drug store.
[d]Includes 25 Grand Unions and 3 Big Stars with pharmacies.
[e]Includes 7 Family Marts and one Kohl's. Does not include 11 Canadian stores with pharmacies.
[f]Does not include 2 freestanding drug stores.

Source: Drug Store News *survey*

Vons Pavilions are 50,000-sq.-ft. to 70,000-sq.-ft. units selling everything from sausages made on the premises to wine selected by an expert. The chain has always been a food powerhouse in its Southern California operating market, but it needed a vehicle to net it better H&BA volume. The Pavilions, which carry more than 2,300 H&BA sku's plus a pharmacy, became that vehicle.

Items typically carried in drug outlets are housed to the right of the entrance, just in front of the pharmacy. The H&BA department is comprised of nine gondola runs.

A unique merchandising strategy has been adopted: Deal merchandise is given the two center shelves on the gondola. Floor stands are taboo.

Vons draws a definite line between nonedibles and food items. Even paper goods such as diapers are housed near H&BA, creating the feel of a very separate drug store environment.

"We try to use the pharmacy as the anchor and flow OTC and toiletries from there. We keep the perimeter for cosmetics, which are more often purchased on impulse," explained Tony Fanticola, vp-general merchandise and H&BA.

Enter The Giant

But Vons was not alone in its quest to debut a strikingly different store last year. Archrival Ralph's unleashed The Giant stores. But Ralph's eschewed the traditional approach to combination retailing. At The Giant, the food to nonfood ratio is 70/30 instead of 60/40. Instead, there is a Thrifty Jr. located in an arcade area that features a pharmacy.

"We feel the Thrifty Jr., which has a smaller assortment, will complement our store. We feel it will serve shoppers who want to get H&BAs on an in-and-out-of-the-store basis," explained Al Maraska, executive vp of the chain. All told, Ralph's plans to open 14 The Giant units.

Classic combo

The West Coast remains a market heavily populated by the nation's best combination units. One of the best examples of a classic combo operation is Raley's, based in Sacramento, Calif. The chain operates 60,000-sq.-ft. units with a 50/50 split between drug and grocery. Authority is divided in the stores between co-equal drug and grocery managers. H&BA items account for 27%-30% of annual volume. The department includes some 10,000 sku's.

"Our philosophy is that you should be able to close your eyes and stand in the middle of the store. When you open them, you should feel like you're in a Longs Drug Store, not a supermarket," explained Gary Skelley, director of merchandising.

Another major combination operator is Dallas-based Tom Thumb/Page. During 1986, the retailer announced plans to open a joint venture hybrid store in conjunction with Wal-Mart. It will be a hypermarket-style operation.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Chains push on with DC plans despite glitches

The importance of operating a well-managed warehouse or distribution center became strikingly apparent last year.

Such chains as Genovese and Peoples straightened out kinks in new DCs to improve merchandising efforts.

And it was also a year when several large chains were chopped into smaller networks, leaving many industry observers curious about the future of massive distribution centers for the emerging streamlined operations. Some wholesalers, in fact, expect to pick up business from the breakup of such chains as Gray Drug Fair, Hook and SupeRx.

Despite those rumblings, most chains continue to improve their facilities. The goal is to move as much merchandise through the warehouse as possible. The leaders such as Walgreens, Rite Aid and CVS push upward of 80%.

The obvious benefit to consolidating, retailers say, is that they can have a better handle on merchandise. Some, like Dart, even price mark at the DC. About 85% of Dart's merchandise is marked before arriving at the store.

Peoples opened a $24 million Fredericksburg, Va., warehouse late in 1985, which limped along through much of 1986. Persistent problems at the center—a three-level facility able to move 270 cases per minute—led to out-of-stocks in many of Peoples stores.

That's alleviated now, said Purdy Crawford, parent Imasco Ltd.'s president and ceo. He noted the center initially operated at 10% of capacity, but that figure is now closer to 60% and should be up around a goal of 80% to 90% within a few months, Crawford explained in a February interview with *Drug Store News*.

Peoples was not alone in its struggle. Genovese Drug's 155,000-sq.-ft. center hurt its numbers initially. But now, says Don Gross, vp-marketing, the facility is starting to pay off in more economical volume buys and faster turnaround time. The chain's non-store door delivery is up from 40% when it opened to 62%. According to Gross, it will hit 75% soon, and the chain will probably activate an option to add 100,000 sq. ft. more next year.

Plan new DCs

Undaunted by problems at other operations, several chains revealed plans for new warehouses. Rite Aid will debut a facility in Winnsboro, S.C., later this year. Rite Aid scored a major coup recently with its purchase of 187 SupeRx and Gray Drug stores from Kroger and Sherwin-Williams. As part of that deal, Rite Aid grabbed—for a bare bones price—SupeRx's 200,000-sq.-ft. Melbourne, Fla., warehouse.

With that location and the new site in South Carolina under its belt, Rite Aid will be poised to add stores at a rapid pace in the South. The chain will use the 200- to 300-store-capacity warehouse to serve Florida and its soon-to-be-opened Winnsboro site will serve other growing southeastern markets.

CVS, which wants to extend its reach in Southern California, will open a new center some time in 1987. The chain has 37 stores in the market and has had to rely on long-haul shipping and local sources—a strategy the chain is not fond of normally, since it moves almost 90% of its items in the East via its own network.

CVS' newest warehouse

The new center will range from 180,000 sq. ft. to 200,000 sq. ft. It will be in Rancho Cucamonga, Calif., a town about 50 miles east of Los Angeles.

Brooks Drug, formerly Adams, recently opened a 75,000-sq.-ft. distribution center in Mansfield, Mass. The new center is used for promotional merchandise and as a supplement to a 410,000-sq.-ft. facility in Pawtucket, R.I.

Several other operations currently have warehouse stores capable of serving more units. Dart's huge 600,000-sq.-ft. site can accommodate 40 to 50 more stores. Arbor's 60,000-sq.-ft. warehouse is reaching its saturation; a 150,000-sq.-ft. new facility is scheduled to debut in two to three years.

Perry Drug, which has three facilities totaling 762,000 sq. ft. recently shifted gears to concentrate on its Auto Works division with the opening of a 312,000-sq.-ft., $5 million warehouse for Auto Works merchandise.

Combines activities

The debut of this center allowed Auto Works to bring warehousing and distribution activities together. By removing some Auto Works merchandise from an existing warehouse in Pontiac, Mich., Perry now nets more space for drug chain items, too.

There are currently 226 Auto Works and the center has the capacity to service 500 stores—meaning the center can accommodate a doubling in size of Auto Works.

New warehouses continue to employ electronic wizardry to make them productive. Perry's Auto Works and its new 400,000-sq.-ft. center have state-of-the-art technology such as automated flow racks with conveyors and automatic routing. The Auto Works center even sports automated picking and sortation systems.

The Perry facility can process 105 cases per minute, one of the fastest rates within the chain drug industry.

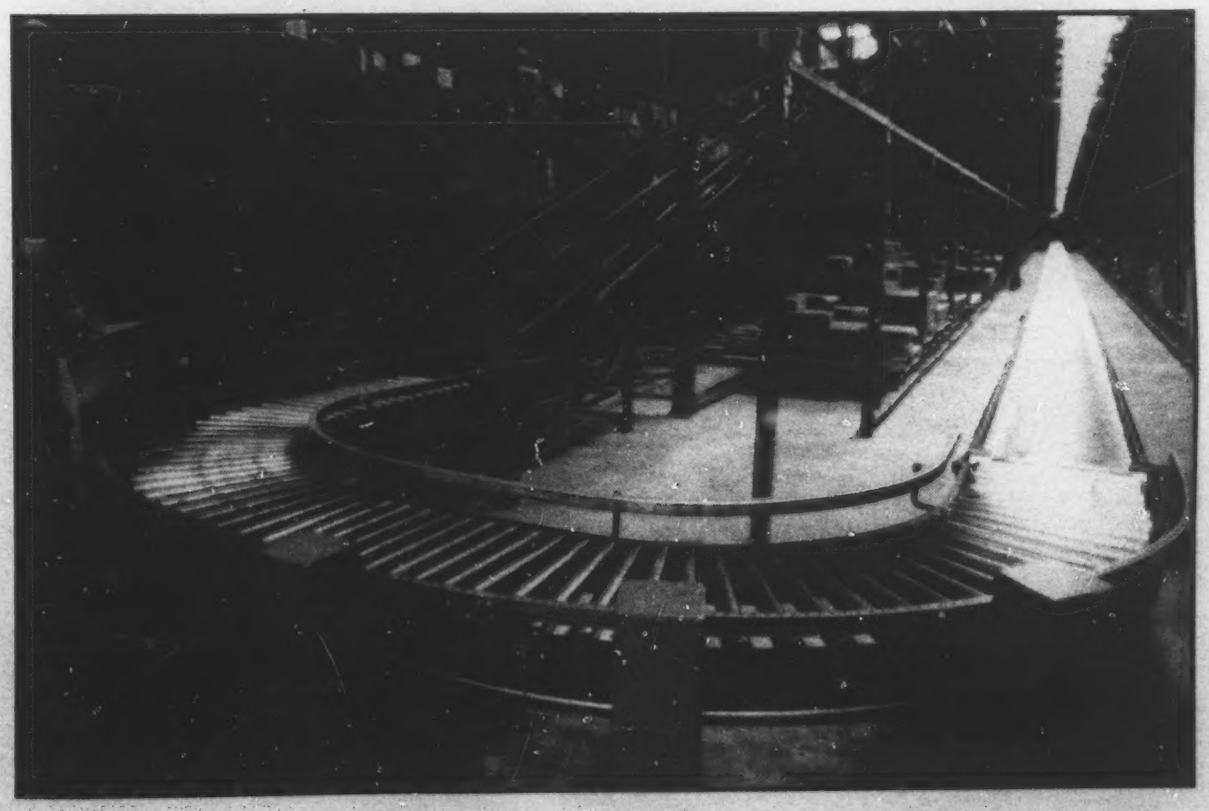
And few operations are still as automated as Walgreens' Orlando, Fla., and Windsor, Canada, facilities with automatic picking and laser sorting.

At least one chain—Canada's Boots—shuttered a warehouse last year in order to concentrate on its business more effectively. Boots will now be serviced 70% by National Drug and the rest by direct store delivery.

Top drug chains in warehousing

	1986			1987		
Company	No. of DC's	Total sq. ft.	% handled thru DC's	No. of DC's	Total sq. ft.	% handled thru DC's
Eckerd	7	2.8M	NA	7	2.8M	NA
Revco	9	2.6M	NA	9	2.8M	90%
Walgreens	6	1.8M	80%	6	2.3M	70
Peoples	8	1.6M	70	7	1.6M	80
Thrifty	3	1.2M	85	3	1.3M	85
Rite Aid	4	1.1M	85	4	1.1M	89
Osco	NA	NA	NA	2	1.0M	NA
Pay Less NW	NA	NA	NA	2	1.0M	70
CVS	2	1.0M	84	2	NA	85
Perry	3	513,000	56	3	762,000	56
Pay 'n Save	2	540,000	NA	4	753,000	15
Fay's	1	280,000	75	2	700,000	75
Thrift	3	781,000	NA	4	690,000	90
Dart	1	500,000	NA	1	600,000	60
Wellby	NA	NA	NA	2	600,000	NA
K & B	2	485,000	85	2	480,000	85
Snyder	1	363,000	NA	1	360,000	85
Brooks	NA	NA	NA	1	350,000	90
Big B	1	240,000	70	1	240,000	70
Rock Bottom	1	175,000	NA	1	200,000	85
Pharm-Escomptes	NA	NA	NA	1	180,000	58
Genovese	1	155,000	62	1	155,000	60
Harco	NA	NA	NA	1	135,000	60
Duane Reade	1	130,000	90	1	130,000	80
Kerr	1	120,000	NA	1	128,000	60
Kinney	1	138,000	95	1	118,000	95
Standard	1	100,000	NA	1	116,000	79
Medicine Shoppe	NA	NA	NA	3	100,000	NA
Taylor	1	80,000	78	1	100,000	NA
Discount Drug Mart	NA	NA	NA	1	91,000	60
Begley	NA	NA	NA	1	90,000	50
La Verdiere's	1	100,000	NA	1	90,000	NA
Drug Fair of N.J.	NA	NA	NA	1	81,000	NA
F & M	NA	NA	NA	1	77,000	NA
Rix Dunnington	NA	NA	NA	2	75,000	50
Medicare-Glaser	NA	NA	NA	1	75,000	70
Arbor	NA	NA	NA	1	60,000	70
Big V	NA	NA	NA	1	60,000	30
Medi-Save	NA	NA	NA	1	20,000	80
Bill's	NA	NA	NA	1	NA	30

Source: Drug Store News *1987 chain drug survey*



Several chains encountered difficulties in their distribution systems last year, but the benefits of central purchasing and delivery continue to drive retailers to expansion and automation of their facilities.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Explosion of computer capability fires up chains

Now that pharmacy computer systems are in place in virtually every major drug chain, retailers can start concentrating on the front end of the store.

Although drug outlets have long lagged behind supermarkets and even discounters in the race toward sophisticated product tracking at point of sale, several chains have made it clear they are poised to play some catch-up ball.

Rite Aid, Revco, Perry and Walgreens lead the drug store charge. Like other retailers installing point-of-sale scanning systems, drug chains are often as interested in expediting checkouts as capturing data.

"Right now, we're looking at our checkout counters to find ways to serve customers fast," explains Walgreens director of facilities planning Tom Bergseth.

Walgreens—one of the pacesetters in Rx computers—plans to roll out front-end scanning equipment in a three-year period starting next year. Scanning will be part of the chain's aggressive WIN (Walgreens Information Network) effort which assists in payrolls, inventory management and other functions.

By the early 1990's, all stores, offices and distribution centers will be linked by the system.

Better grasp of business

Although the desire to zip customers through checkouts is a factor, most industry observers say the real reason chains are adopting scanners is to get a better grasp of the business.

Stores can only be so profitable, and chains can only expand so far. "The challenge," says Fay's Drug chairman Henry Panasci Jr., "is to make our stores more profitable." Fay's is also researching scanning systems.

Several chains are already reaping the benefits from such efforts. Rite Aid uses scanners in more than 250 stores. It has allowed the chain to not only glean movement data, but the advent of scanners has reduced labor costs from price marking.

Many drug store retailers say they have been waiting for questions about scanners to be answered before entering the fray. Many wondered whether handheld scanners or slot versions were right for drug operations. Revco, which postponed its scanning test for this and other reasons, finally debuted a scanning system in January 1987. Revco just recently completed the installation of scanning upgradable electronic cash registers in all of its 2,050 units.

Revco plans 10 systems

According to a Revco spokesperson, the Twinsburg, Ohio-based operation plans to have 10 systems in place by the end of its fiscal year.

Although Revco has put a vote in for slot scanners, it still is testing the various hardware systems. The current test is with both AT&T and IBM computers for hardware and two software offerings.

Revco is using the test to determine the breakeven times and return on investment. According to vp Scott Leeseberg, the system pays for itself quickly if inventories are put in line and a few turns are picked up.

Like others, especially discounters and food store operators, scan data will be used, at some point, to help determine the mix.

Determines shelf allocations

Troy, Mich.-based K mart is using scan data to determine shelf allocations. For example, although Crest toothpaste outsells Aqua Fresh in most stores, scan information has found several units have a reversed trend and the shelves are set accordingly.

The increasing use of scan data will also make it harder than ever to justify sluggish turning merchandise. It is also giving buyers, not vendors, the favorable position when it comes to movement information.

Other leading drug firms tinkering with scanning include Perry, which is learning from its Auto Works division which has scanners, Peoples and its sister company Shoppers Drug Mart.

Shoppers has concrete results of scanning. By eliminating slow turners, one SDM store cleared 24 running feet of merchandising feet, which was turned over to a 16-ft. bar soap area and an 8-ft. trial and travel section. These two departments added $75,000 to the store's annual volume.

It was only in the last few years that scanning could become a reality because more and more of the typical drug store sku's began to carry the Universal Product Code (UPC). Prior to this, retailers would have to stamp it on in the warehouse—a costly action.

Leeseberg at Revco estimates about 74% of all Revco items are coded now.

With computerization, drug chains will also be able to start using Direct Product Profitability (DPP) more easily. Eckerd is already putting a DPP model together.

Scanning is not the only technological movement by drug operations. Thrifty, for example, has a five-year, $60 million plan to form a comprehensive in-store computer system that will integrate and automate store operations. Activities will include POS data capture, automatic store ordering based on inventory management, automated labor scheduling and energy management.

And, perhaps one of the most intriguing uses of computers is in warehouses such as Zahn and Walgreens computerized picking arms.

Computerization is not cheap. It can cost at least $20,000 per store to install POS systems. Yet many chains feel the time is right to use these systems to pump out more productivity per store.

Chains are increasing commitment to POS systems, and more are testing scanning.

Pharmacy computers in chain drug stores

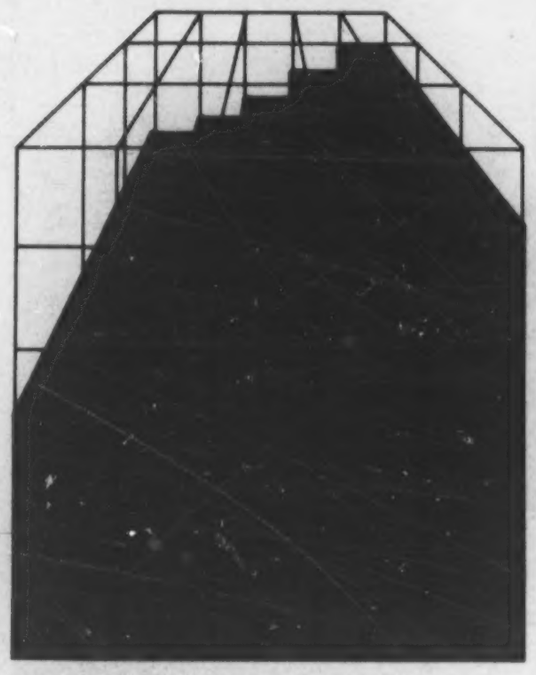
Company	1986 No. of stores	1986 % of total	1987 No. of stores	1987 % of total
Eckerd	NA	NA	1,500	92
Walgreens	1,175	100	1,217	96
Rite Aid	750	60	825	52
Revco	766	38	NA	NA
Thrifty	NA	NA	464	78
Thrift	NA	NA	371	95
Medicine Shoppe	NA	NA	300	47
CVS	NA	NA	250	40
Longs	208	100	222	100
Perry	191	100	210	100
Pay Less NW	NA	NA	200	91
Shoppers Drug Mart	183	42	195	35
Fay's	143	100	153	100
Big B	126	100	153	100
K & B	72	50	120	82
Medicine-Glaser	86	98	85	91
Pharm-Escompte	NA	NA	85	96
Genovese	80	100	79	100
Pay 'n Save	NA	NA	73	52
Kerr	62	100	70	100
Big V	NA	NA	60	71
Snyder	NA	NA	55	100
Arbor	NA	NA	51	100
Taylor	47	100	45	100
Harco	55	83	45	75
Standard	NA	NA	45	67
Supermarkets General	NA	NA	45	69
Begley	43	100	43	88
Medi-Save	NA	NA	40	27
Rix Dunnington	NA	NA	32	76
Drug Emporium	NA	NA	30	25
Kinney	NA	NA	30	100
Thrifty/White	NA	NA	22	42
Discount Drug Mart	NA	NA	22	100
Phar-Mor	21	100	21	95
La Verdiere's	NA	NA	21	35
Drug Fair of N.J.	NA	NA	21	100
Kent	NA	NA	13	18
Pic 'n Save	NA	NA	7	17
Duane Reade	NA	NA	5	19
Bill's	NA	NA	2	8

Source: Drug Store News 1987 chain drug survey

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Walgreens drug store sales stride upward

(in billions of dollars)

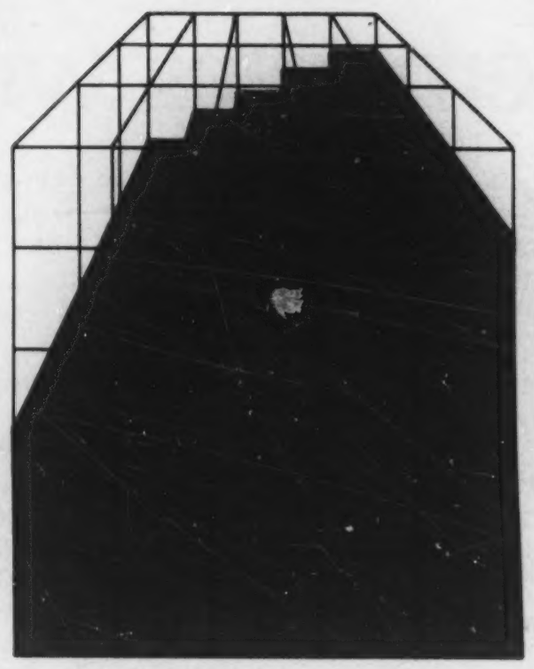


Source: Company reports
Fiscal year ended Aug. 31, 1986

Walgreens' merchandise mix will be evaluated carefully this year. "We're going to study every single item we carry for its sales potential and return on investment," Charles R. Walgreen III said.

Walgreens net earnings climb

(in millions of dollars)



Source: Company reports
Fiscal year ended Aug. 31, 1986

Walgreens sets '86 expansion record

Chain opens or acquires 193 stores to solidify No. 1 spot

Fiscal 1986 was a benchmark for Walgreen Co., in which the nation's premier drug chain solidified its claim to the No. 1 spot in chain drug retailing.

In a time of relative quiescence among most chain drug retailers, Walgreens made big strides in sales, earnings, store modernization and expansion, market share and other key areas.

Walgreens bucked a conservative expansion climate last year, buying up nearly 100 Medi Mart and Ribordy drug stores and opening another 102 new stores. In the process, the chain made its long-awaited entry into the underchained New England marketplace and strengthened its presence in dozens of other areas.

'Greatest expansion year'

"Last year was the greatest expansion year in Walgreen history, [with] 193 stores either opened or acquired," noted chairman Charles R. Walgreen III. "This was a very well-researched effort to increase market share in our key markets and also take advantage of an exceptional acquisition opportunity. We increased our market share in 32 of our top markets and positioned ourselves for profitable growth in the years ahead."

Walgreens' 1,300 high-volume drug stores are positioned to give the chain the kind of market penetration unmatched in the chain drug industry. The chain is now market leader in eight of the top 50 markets and No. 2 or 3 in 11 others. With the purchase last June of Boston-based Medi Mart's 66 stores, Walgreens broke into New England, while the Ribordy acquisition last September essentially doubled its northern Indiana store base.

Northeast DC by 1990

In all, the chain added units in 17 of its top 20 markets, including big gains in Chicago, St. Louis, San Francisco, Tampa and Phoenix. Those cities, as well as Minneapolis, Cincinnati and other Florida markets, are being targeted for further expansion this year. Walgreen also predicts the chain may add as many as 150 more units in the Northeast by the end of the decade—enough to require the installation of a distribution center in that area of the country by 1990.

Walgreens' chairman has predicted that the chain's blistering expansion pace will continue at the rate of 100 new stores and 20-30 acquired units a year "for the foreseeable future." In addition, the chain will remodel another 100 units this year, on top of the 89 major renovations completed in fiscal 1986.

Walgreens also invested $19 million last year to expand its distribution centers in Houston; Orlando, Fla.; Flagstaff, Ariz.; and Windsor, Wis.

Capital outlays

In all, Walgreens shelled out a record $155 million last year for acquisitions, openings and improvements, with another $130 million budgeted for the same purposes in fiscal 1987. The capital outlays last year weren't enough to slow the company's earnings momentum—net income was up another 9.5% in fiscal 1986, to an industry-high $103.1 million, on sales of $3.66 billion. The heavy expenditures did cut into results for the first quarter of fiscal 1987, however, when net earnings slid 23%, to $13.2 million, on sales of $960.3 million. Changes in the corporate tax law were also to blame for the earnings drop.

The chain's aggressive expansion drive last year was only the most visible component of a wide-ranging modernization and improvement program. Walgreens also made significant new thrusts into several areas of health care, automation, distribution and merchandising. It also began marketing its formidable pharmacy services more aggressively to health maintenance organizations, nursing home customers and mail-order prescription drug buyers and opened a new 72,000-sq.-ft. computer center in Mount Prospect, Ill.

Greeting cards draw traffic at Walgreens unit in downtown Chicago.

"We're not coasting or sandbagging. We're taking our funds and reinvesting them for future growth," said president Fred Canning. "Heavy costs will be incurred, but we're not taking any shortcuts. That's the way it's going to have to be."

Boosted ad budget

As part of its aggressive bid to build and capitalize on its market share around the country, Walgreens also made a substantial increase in its advertising budget this year, to $130 million. Part of that new advertising will focus for the first time on convenience food sections, now in place in about 400 Walgreens' stores and set for careful expansion in more markets this year.

Walgreens' overall merchandise mix will come under careful scrutiny again this year. "Fred Canning and I are heading up a committee to thoroughly review front-end store sales," Walgreen explained. "We're going to study every single item we carry for its sales potential and return on investment."

Much of the chain's recent focus, in fact, has been on the strongest component of its business: the pharmacy. Rx sales at Walgreens were up a whopping 28.5% last year and now account for 23% of total business.

Moved into mail order

To build on that strength, Walgreens has moved into mail-order prescription sales through two facilities, in Phoenix and Orlando, and recently opened a freestanding facility in Memphis to service nursing homes. Drawing on its chainwide Intercom pharmacy computer system and its strong Rx franchise, Walgreens is also going after HMO and other third-party business more aggressively.

Installation of the computer-based Walgreen Information Network in stores is also proceeding. The system links stores, offices and distribution centers for such purposes as cash and inventory management, electronic charge-card transmission, electronic mail, price changes and employee payroll monitoring. It is now being linked to a test of point-of-sale scanners, which should be chainwide by 1990, the chairman predicted.

Satellite dishes tested

To boost communication capabilities and cut transmission costs for both Intercom and WIN, Walgreens is also testing satellite dishes at a few sites. Said Walgreen: "The bottom line is that we're constantly trying to refine the application of technology to drug store and restaurant management. The best use of technology is vital to our growth and competitiveness."

At the annual meeting in January, the grandson of founder Charles R. Walgreen Sr. set forth the company's goals in simple terms. "Our corporate strategy in the years ahead," Walgreen said, "will be to stay competitive, stay focused on businesses we're in and stay adaptable to change."

Walgreens store count

Source: Company reports

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Osco in $3 billion range; emerges with autonomy

SALT LAKE CITY — American Stores completed the decentralization of its operations into three giant retail divisions in February, giving the go-ahead for Oak Brook, Ill.-based Osco Drug to continue building itself into a national drug chain under a single banner.

The splitup leaves the financial, strategic planning and investor relations functions in Salt Lake City as part of a much smaller central office. Separate departments for MIS, real estate, buying, advertising and distribution, however, have now been created for each division at their own far-flung offices.

Two-year effort

The shift in power, effected gradually over the past half-year, caps a two-year effort by the $14 billion retail conglomerate to digest its 1984 purchase of Jewel Cos. and distill the numerous, scattered components of both companies into three new, more workable entities. The result is three powerful new retail chains with national impact: Osco, operating 666 super drug stores in 30 states; American Superstores, with 558 supermarkets in the East and Midwest and based in Wilmington, Del.; and Skaggs Cos., which operates Alpha Beta and Buttrey supermarkets and Skaggs Alpha Beta food/drug combo stores in the West.

To run American Superstores, the largest of the three divisions, company chairman L. S. "Sam" Skaggs recently lured former Albertson's chief executive Jonathan Scott, who will head a $6.4 billion supermarket operation and oversee its move into Florida with a new combo store format. Under Scott, who joined with Skaggs in the 1960's to open some of the first food/drug combo stores in the industry, American Superstores will begin opening combos in western Florida in 1988.

Osco Drug has emerged from the decentralization in a stronger position than ever in its drive to become the first truly national drug chain. Osco accelerated its expansion efforts last year, opening nearly 30 units, compared with 14 in 1985, and remodeling another dozen units. For 1987, the chain plans another 26 new stores, as well as 18 major remodels.

Improving market share

"We have been working on expanding in each of the marketing areas in which we operate," noted Osco president Dick George last year in an internal company report. "We think that we should be able to achieve a market share of about 25% in many of our marketing areas.

"We need to add approximately 200 more stores in those markets just to achieve a 25% share in those markets," George added. "Our numerical information indicates that we begin to gain advertising, distribution and other efficiencies at that level."

Store expansion, however, was eclipsed at Osco by other, internal efforts, as the chain came to grips with the Herculean task of consolidating the operations of its three separate drug store divisions—Sav-on and Skaggs in the West and Osco in the East and Midwest—into a unified, coast-to-coast drug chain under a single banner. Over the past year, those efforts took many forms and bore fruit in a variety of ways.

Consolidation under Osco logo

Osco's major achievement thus far has been the consolidation of its three divisions under the Osco logo, and the creation of centralized systems for marketing, merchandising, accounting and distribution. The replacement of Sav-on's store logo with that of Osco was completed late last year, in line with the chainwide consolidation under the Osco banner and the expansion of Osco's private label program with new, redesigned packaging for all Osco-brand products. Other highly visible changes occurred in the stores in each market, as Osco merchandisers developed and implemented centralized planograms for most store formats, taking the best elements of each merchandise format in its three divisions and blending them into a more unified, chainwide approach.

One result of the remerchandising was an increase in the size of some departments in traditional Osco drug stores. Noted an internal company report: "In Osco's desire to keep inventory levels low, we shaved our selection in our cosmetics, toiletry and drug areas a bit too much. The Sav-on and Skaggs stores had a far superior selection.

An additional 16% in the number of sku's has been added to cosmetics, toiletry and drug categories, according to a recent Osco company report.

"Just about every counter [in smaller stores] had to be reset to accommodate the increase in product," the report goes on. "We added 16.1% to the number of sku's in those categories and our whole organization now has the kind of selection that was available before at our Skaggs and Sav-on stores."

Larger prototype unit

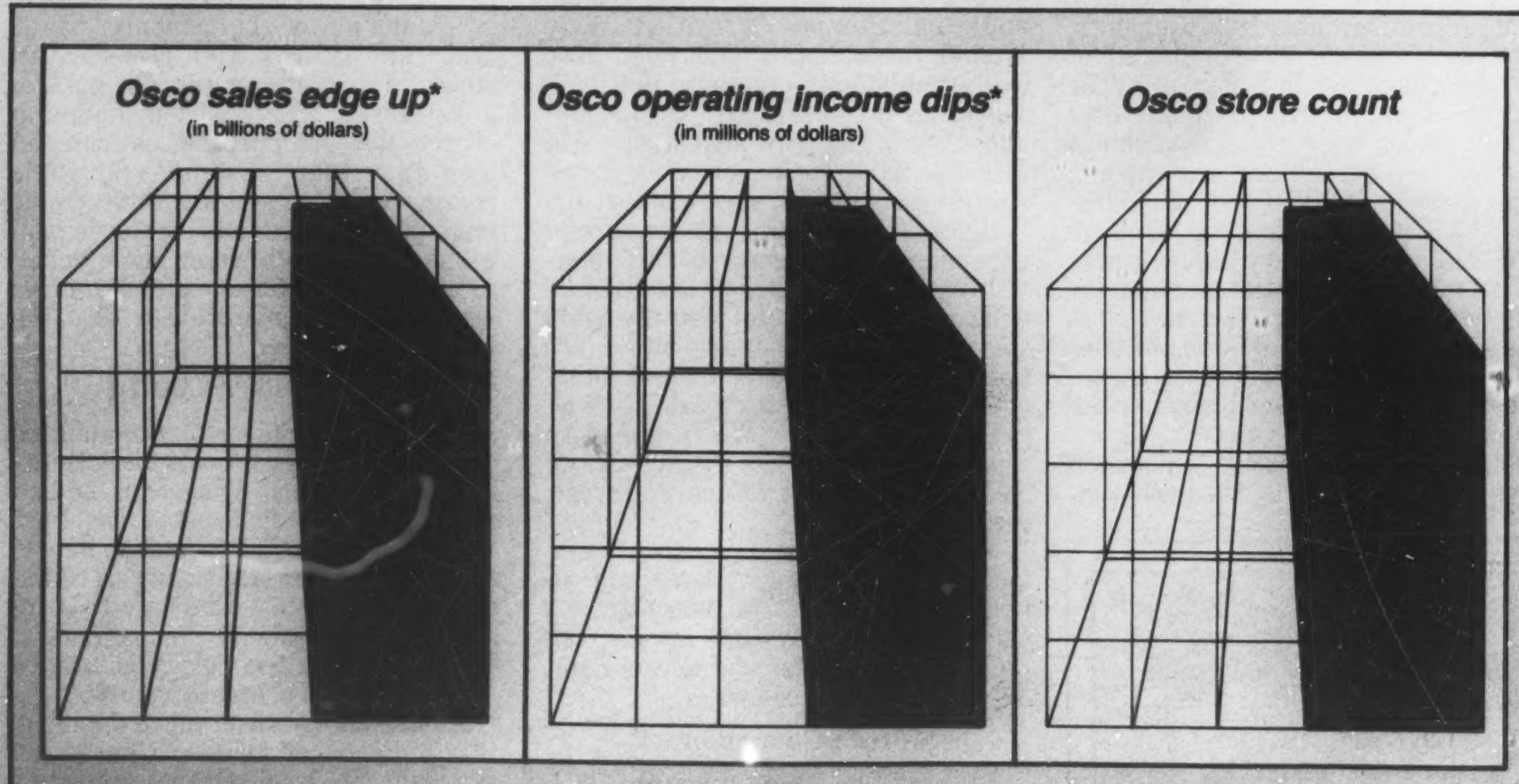
An even more visible result of the merger has been the development of a new, larger freestanding Osco prototype store, based on "information and experience gained from the 2,000 and 3,000 [larger-format] series stores," according to the report. The new layout represents an expansion from 19,859 sq. ft. to 21,415 sq. ft. with 534 4-ft. general merchandise sections, a pharmacy waiting area, an angled beer cooler for better customer traffic out of the liquor department, a cosmetic island with its own checkout and increased aisle space between the checkouts and front gondolas to allow for merchandising impulse items.

Osco has also redesigned the pharmacy counters in many stores for more efficient prescription filling and created a new, lower camera counter for customer convenience.

New ad format

Based on input from all three drug store divisions, Osco has also developed a new, cleaner advertising format, one of whose functions is to boost Osco's image in variety and selection in its traditional markets in the Midwest. The chain has also adopted Skaggs Drugs' "Smile and Speak Up" program of customer service for all its stores and has implemented a customer-response system chainwide.

Another major change for Osco last year was the centralization of warehousing and distribution for all stores, utilizing company warehouses in Illinois, Utah and California. All stores have also been converted to the Osco system of accounting in order to simplify bookkeeping in Oak Brook. The chain is also working to improve its methods of tracking and reporting sales in each store region.

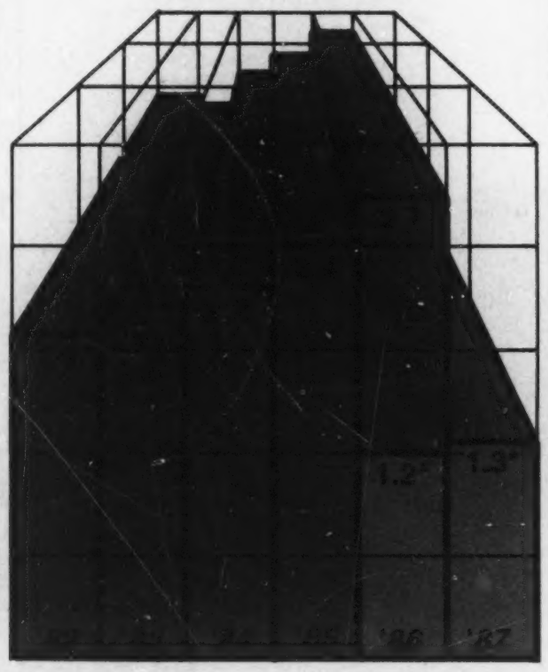


*Estimates
Fiscal year ended Jan. 31, 1987
Source: Lebhar-Friedman estimates

Figures reflect merger of Osco with Skaggs and Sav-on drug store chains following 1984 purchase of Jewel/Osco by American Stores.
Figures for prior years are not comparable.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Revco sales grow 14% in 1986 year
(in billions of dollars)

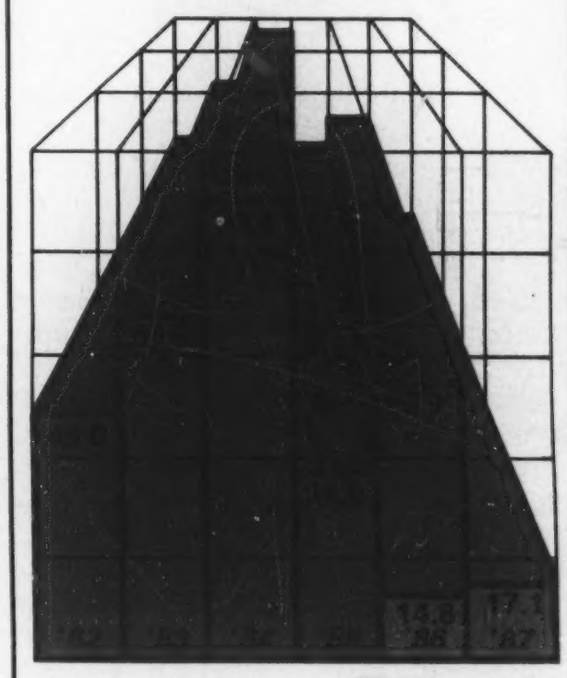


*Six months ended Nov. 15
Source: Company reports

■ Six months
■ Full year

Revco's "power aisle" features a variety of sharply priced general merchandise.

Revco earnings leap in 1986
(in millions of dollars)



*Year ended May 31
Source: Company reports

■ Six months
■ Full year

Revco eyes measured growth following LBO

TWINSBURG, Ohio — Revco entered its post-leveraged buyout phase, during which it began to streamline operations, slow the rate of unit growth and build long-term profitability as a private company.

Management capped a year-long effort to take the 2,069-store chain private, after three-fourths of its shareholders endorsed a $1.25 billion offer at the chain's annual December meeting. The LBO's total cost was $1.45 billion.

Shareholders' acceptance of a $38.50-per-share cash offer put the country's largest drug chain (in store count) into the hands of senior Revco management and other investor shareholders, including Transcontinental Services, NV, a Netherlands Antilles Company, which is the majority owner. TS's chairman, Nathaniel de Rothschild of the banking family, becomes a Revco director.

Investors' perceptions

Investors felt that Revco's assets were undervalued by the stock market and that the chain was therefore vulnerable to a hostile raider. They also felt the business was fundamentally sound, with the necessary cash flow to pay the debt requirement of a leveraged buyout and the potential to be sold again to the public in the future at a profit to its current owners.

Revco's stock price was held down by depressed earnings that stemmed from a variety of troubles. They included an unsuccessful price discounting program in key Eastern markets, heavy writedowns in its 1985 fiscal year on unsold inventories in its Odd Lot Trading Co. subsidiary and 1984 infant deaths stemming from a product made by its Carter-Glogau subsidiary.

The buyout was conceived by chairman Sidney Dworkin, president William Edwards and Glen Golenberg, of Golenberg Associates, an Ohio investment firm that has an ownership interest in the new company.

The buyout plan was based on projections that the chain could increase sales about 12% a year and generate 7%-8% operating profits, figures that are in line with Revco's historical performance.

While management will no longer have to be concerned with reporting quarterly earnings, it now has to generate cash flow to cover a debt load of $150 million a year, or five times what Revco paid as a public company.

Debt load larger

The debt structure is based on paying the bulk of a $455 million bank loan by selling off most or all of the chain's nonretailing subsidiaries. Revco has sold three already: Private Formulations, a maker of private label OTC products; General Computer Co., a software producer; and Carter-Glogau, the medicament manufacturer.

A prospectus indicated Revco would slash its capital expenditures by about 55% a year. But the chain still said that after closing 100 units initially, it will be rolling out new ones at a rate of 100 a year. Remodeling, though, can be curtailed, since 75% of units are new or have been remodeled in the last five years.

During the year, management unwrapped a string of operational reforms and management changes, as it pursued the leveraged buyout.

The goal is to reduce inventory by $75 million by 1987's end and also to cut S&GA expenses by $42 million in that same period.

Retrofit increasing sales

Officers said that it was obtaining dramatic sales increases from a new front-of-store retrofit. The changes had been introduced in 15 units and will be rolled out into all stores in two years. The main feature of the retrofit was the move of greeting cards from the back to the front of the store and pairing the card department with cosmetics. The switch made the high-margin categories much more visible and accessible to customers.

A line-by-line study of cosmetics to identify the items producing the best ROI was followed in other H&BA and OTC categories in some stores.

In January, Revco began testing slot scanners, expecting to put the devices in 10 stores by Jan. 30. The test followed completion of the installation of scanning-upgradable cash registers in all stores.

Revco also revamped its field network, which officers said would streamline chains of command and allow managers to be more responsive to local conditions. It created five zones in its 30-state trading area, divided further into 64 districts.

While Revco's central management core of Dworkin, Edwards, cfo R. Carroll Hudson and executive vp Marc Dworkin remained intact, second-tier management underwent an extensive overhaul.

Management changes

A. Richard Butler, a former F&M Distributors officer, was named senior vp-store operations, replacing Albert Sebok, who was moved into the newly created post of vp-professional services, reflecting the company's goal to protect the pharmacy segment.

Purchasing responsibility was divided between Ellis Jones and Philip Carfagno as new divisional merchandise directors. John Crowley, hired from W. T. Grant to head up Odd Lot, took on the duties of vp-merchandising. Robert Gerdony was hired as senior director for import merchandise.

Revco's sales and earnings bounced upward in its 1986 fiscal year ended May 31, after the dismal 1985 year. The performance in 1987's first six months seemed to indicate that sales and earnings had indeed stabilized.

Year-end sales were up 14% to $2.7 billion, compared with 1985's $2.4 billion. Operating earnings advanced to $125 million from 1985's $81 million, the lowest operating tally since 1980. Net earnings were $56.9 million, or $1.72 a share, compared with $38.9 million, or $1.06 per share, in 1985.

Sales and earnings

In the first six months of 1987, ended Nov. 15, net earnings were $17.1 million or 53¢ a share, on sales of $1.3 billion, compared with earnings of $14.8 million, or 44¢ a share, on sales of $1.2 billion in the comparable 1986 period.

Revco said sales from like-stores rose 6% in the second quarter, with same-store prescription sales up 10%.

Odd Lot continued to lose money, but losses declined after the stores were remerchandised.

Revco, which historically increased its stores by about 10% annually, said it added a net of 38 units in the first six months of 1987.

Cut-cased snacks and speed tables denote Revco's everyday discount theme to entering shoppers.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Eckerd begins total store upgrade

Unveils 230 Spartan remodels and targets all stores by '90

CLEARWATER, Fla. — Jack Eckerd Corp. last year began putting its new private drug chain into fighting trim.

The uncluttered Spartan format that Eckerd unveiled in Florida symbolized the lean, cash-flow-centered company the chain sought to become after its $1.2 billion leveraged buyout.

Eckerd had rolled out more than 230 Spartan remodels by year's end and said all stores will feature the new format three years from now. It was a major move to improve return on investment.

Eckerd chairman Stewart Turley said when the new company was eight months old, it was meeting its cash flow needs to support its debt load and performance was in line with projections. Free cash flow in the fourth quarter ended July 30, was $21 million, he said.

Morale was up dramatically, Turley said. Thirty top officers are manager-investors; 250 additional executives were offered stock options and employees have a 6% stake in the new profit-sharing plan.

Current mood of optimism

Current optimism contrasts with the somber mood here a year ago, when the Dart Group had latched onto a five percent stake of Eckerd stock during a period when Eckerd earnings were soft. After looking in vain for a merger partner to thwart Dart, Eckerd concluded that a management buyout offered the safest route to independence and the best value for shareholders.

Shareholders approved a $33 per share cash bid that management paid for with a combination of bank loans, subordinated debt, preferred and common stock and the liquidation of $30 million in corporate assets.

Officers said capital expenditures should stay near historic levels though they'd be directed more toward remodels—about 250-300 this year. Eckerd will open about 50 new stores within its current 15-state trading zone and the store-closing rate will be at par with the past. Eckerd had been opening about 100 stores annually.

Remodels will be in the downsized Spartan format—which is meant to improve store appearance, create an open, easily accessible layout and emphasize merchandise sought by the time-pressed working woman who is a key customer.

Decor includes earthtone paint, neon signs, better lighting and overhead aisle markers.

Creates 'comfort zone'

Eckerd opened up the front-of-the-store to traffic by removing a side-to-side gondola and leaving a "comfort zone," where shoppers can move about. Hosiery, cosmetics, expanding greeting card sections and new convenience food sections surround the zone.

The new food department supports a strategy of capturing consumers' convenience, unplanned shopping visits that would otherwise go to supermarkets or convenience stores.

Besides picking up an extra food sale, the food sections also protect the stores from losing incremental H&BA business that supermarkets pick up when they get the convenience shopping visit.

At the stores' front-left, the food sections carry twice the cookies and snacks of the older format, a new 15-ft. beer and wine segment and core convenience items such as juice and eggs. Selected stores will also take on expanded sections, with dry groceries, ice cream and frozen foods.

The Spartan format also has wider aisles, with the promotional aisle running side-to-side in the store's center to break up the front-to-back gondola runs. Case-stacked endcaps were taken out and floor-stacked merchandise generally eliminated, by using higher 64-in. gondolas. This format de-emphasizes general merchandise.

Wipes out competition

Eckerd wiped out a competitor in its home state and gained stronger presence in markets there by buying 36 Shoppers Drug Mart stores. The stores, which had failed to become profit centers under Peoples management, match Eckerd's typical 8,600- to 10,000-sq.-ft. stores and are in high-growth Florida markets in the Southeast, the West Coast and Orlando.

Eckerd ended the year with 1,611 stores, a 6% gain from last year.

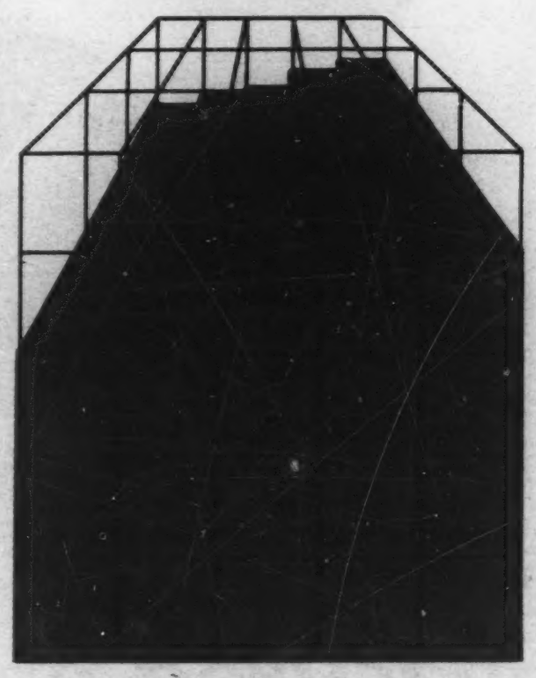
Turley said that most of the 250 to 300 units scheduled for remodels in 1987 will be outside Florida, where remodeling was focused this year on some of the chain's oldest stores.

Committed to eye care chain

Eckerd appears committed to its Visionworks eye care department stores, given its launch of two new stores following a test of five. It said it would have as many as 13 by year's end. Visionworks growth is aimed at western Florida.

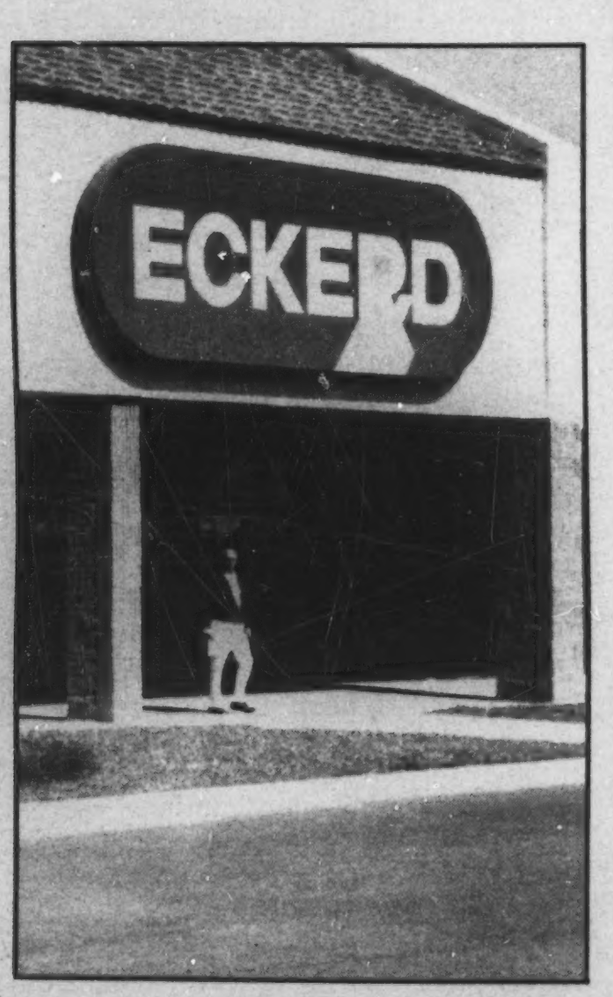
The retailing venture puts doctors and opticians under one roof. Sources have said the stores can achieve $5 million annual sales in high-traffic locations, with $1 million in inventory required for start up.

Eckerd drug store units up 6%



Source: Company reports

Eckerd's promotional power aisle bisects the new Spartan layout horizontally. Manager in this Clearwater store used upside down umbrella to feature packaged Easter candy.



Eckerd has opened a total of 26 Express Photo departments that offer one-hour, on-site photo-printing services.

The latest look in Eckerd's cosmetics departments is open, airy and uncluttered. Reduction in the size of the service counter allows easy access to pegged and shelved merchandise on the wall.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Longs focuses on future as profits begin rebound

WALNUT CREEK, Calif. — While Longs experienced a small profit rebound for its fiscal year ended Jan. 29, it is the current fiscal year on which the chain is pinning much of its hopes for strong income growth.

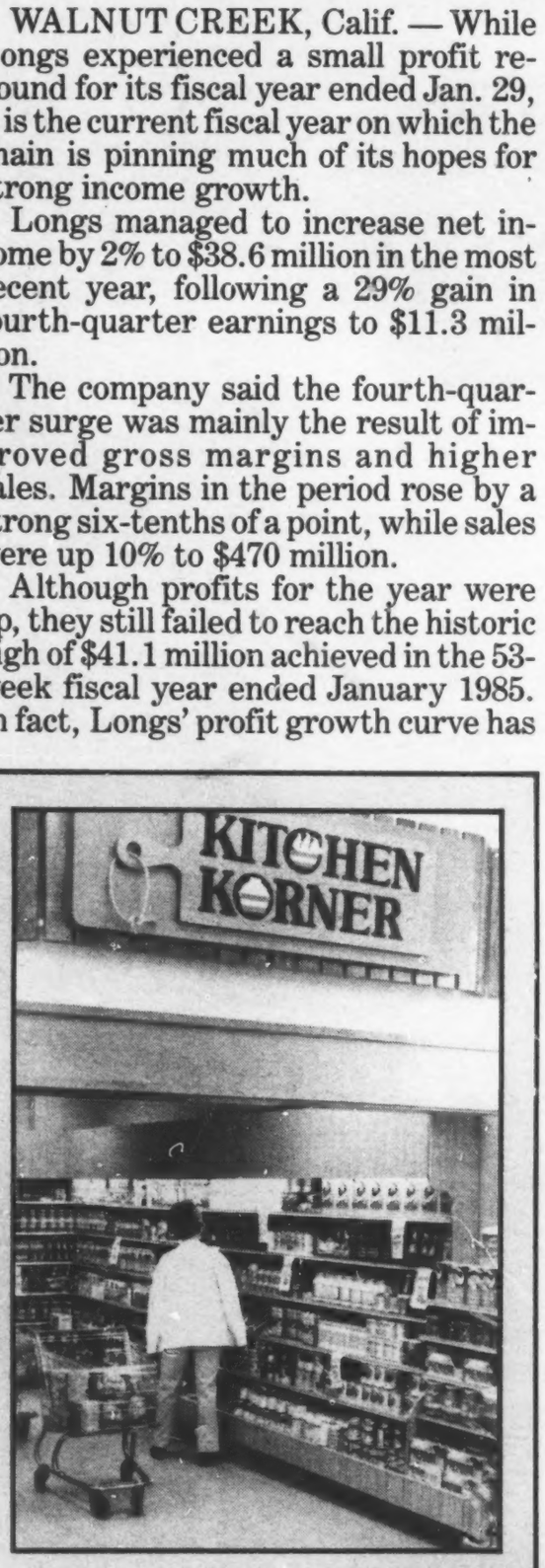
Longs managed to increase net income by 2% to $38.6 million in the most recent year, following a 29% gain in fourth-quarter earnings to $11.3 million.

The company said the fourth-quarter surge was mainly the result of improved gross margins and higher sales. Margins in the period rose by a strong six-tenths of a point, while sales were up 10% to $470 million.

Although profits for the year were up, they still failed to reach the historic high of $41.1 million achieved in the 53-week fiscal year ended January 1985. In fact, Longs' profit growth curve has been relatively flat for the past four years, having advanced only about 6% between fiscal 1984 and 1987.

Among the factors that have restrained earnings: Heated competition in Longs' principal markets, relatively aggressive store opening schedule and financial factors beyond the company's control, like the staggering increase in insurance costs that occurred in 1985.

Some of these factors should have less impact on earnings comparisons in the current year. For example, the relatively heavy complement of stores that opened during 1985 and '86 should be yielding a higher return in the current year. Longs plans to open about 11 stores this year, down from 15 last year and 17 in the prior year. The chain finished the year with 222 stores. In addition, while interest expense remains high, it is now being compared to almost equally high costs in previous-year quarters.



Longs uses food on endcaps for maximum promotional firepower, but many of the stores also contain Kitchen Korner convenience food departments.

Cost-cutting moves

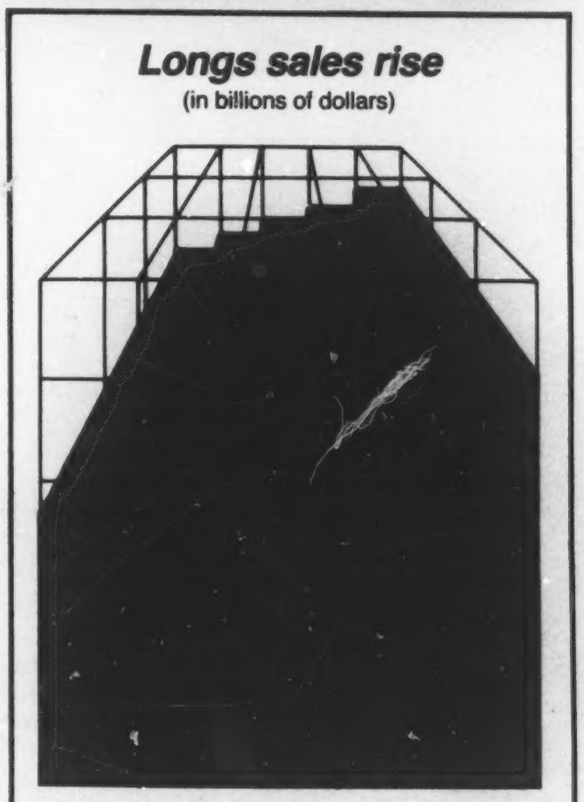
Longs has also made moves in the past year to keep costs in line and to institute new accounting procedures designed to predict, and ultimately control, the factors that have put a brake on earnings.

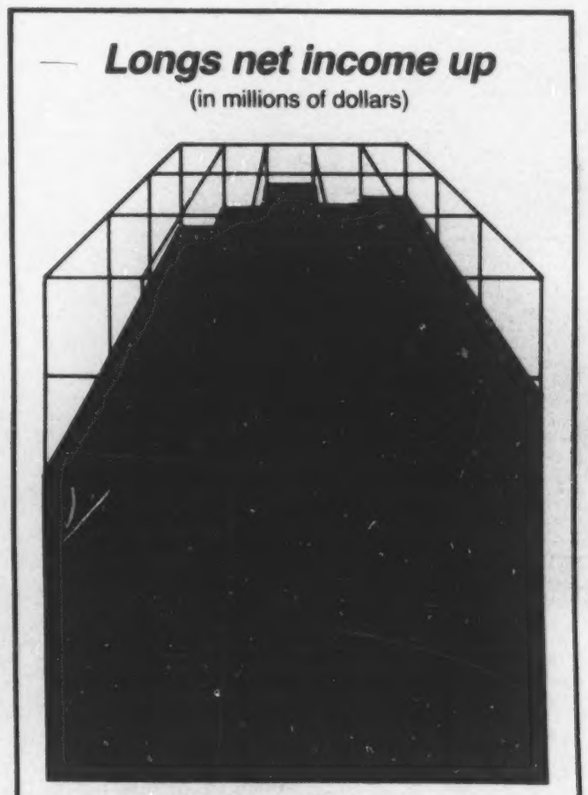
One cost-cutting move involved reducing the time it takes to construct a new store from an average of 11½ to 8½ months.

Longs also completed its store computer installation program last year. The computers provide a method of rapidly disseminating information throughout the chain and, thus, are a potent tool in reacting quickly to market trends.

To meet the heavy competition in its markets, Longs has moved to sharpen its pricing and also to improve its mix of traffic-generating hot ad specials.

"We cannot be the lowest on every item," executive vp Richard Scott told shareholders last year. "However, we feel we can achieve our goal of giving our customers the lowest combined totals."





Longs has also begun to open some smaller format stores to take advantage of opportunities in markets that would not be able to sustain a Longs' superstore. "We have the flexibility that only a decentralized chain has to open just about any size store," Scott said.

Smaller format stores

The typical Longs' store is about 26,000 sq. ft., but units can range anywhere from 12,000 to more than 38,000 sq. ft. Since the chain is decentralized and the vast majority of merchandise is shipped direct from manufacturers, the stores tend to have large backroom operations.

As part of the ongoing changes in the stores, Longs is testing a new prototype designed to appeal more to that high percentage of shoppers who are women.

One experimental change: the use of softer pastels to replace the browns and burnt oranges currently used. Some have questioned whether the softer colors should be used in parts of the stores considered male-oriented, like tobacco and liquor.

Other layout changes introduced last year include a reconfiguration of the pharmacy department to make it easier for pharmacists to consult with patients. In addition, in some stores, the Hallmark greeting card department has been moved closer to the front of the store in an effort to increase impulse sales in the high-margin category.

Management reorganized

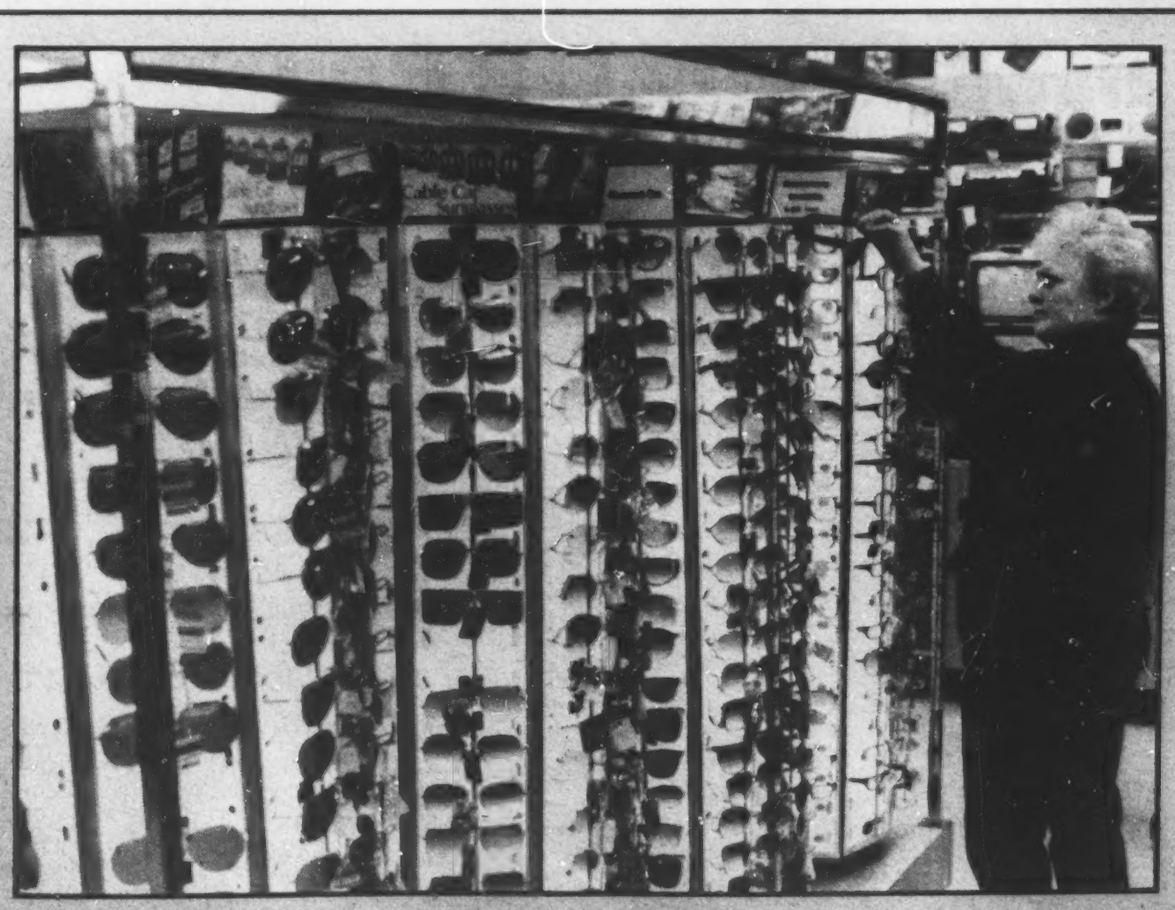
In the management area, the chain recently reorganized its merchandising and redistribution team to streamline efforts in those areas. The changes were made following the departure of vp-merchandising Phil Paz, who left to start his own import business.

Dale Bystrom was promoted to the new post of general merchandise manager, and Terry Sandin was named corporate advertising manager, another new position.

Bystrom, who reports to senior vp-marketing Stephen Roath, will oversee eight Longs merchandising administrators, who cover opportunities in various product categories but do no direct buying. But his job has been streamlined to allow him to focus more directly on the chain's total merchandising efforts.

During the year, Longs also enacted additional measures to forestall any corporate takeover artist who might have his eye on Longs' strong balance sheet and large real estate holdings.

Longs emphasizes service in its photo departments. The chain has set up a training network to assure as much expertise as possible for its photo help.



Longs offers a large selection of sunglass styles.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Rite Aid makes strides, anchors Southeast push

SHIREMANSTOWN, Pa. — Rite Aid, already the No. 3 drug chain in store counts, expanded boldly in December when it contracted to buy 218 SupeRx, Gray Drug and Drug Fair stores in Maryland, Florida, Georgia and Alabama.

With the 115 SupeRx stores and 228,000-sq.-ft. distribution center in Florida, Rite Aid at once anchored its southeastern push, tapped into a fast-growing state of elderly with many health care needs, and added shipping flexibility to enhance growth prospects in this region of the country.

Combined, this is the largest acquisition in Rite Aid's history, at $110 million. The stores will add a projected $250 million annualized volume to the $1.6 billion chain. Rite Aid's new store count also helped it topple Eckerd from the No. 2 spot in stores, at about 1,680 currently.

Chairman Alex Grass told analysts recently, "Sites have become easier to acquire as more of our major competitors have limited their expansion due to their involvement with leveraged buyouts and consolidations."

Indeed, Rite Aid and Walgreens have blazed a hot takeover trail this year, expanding their presence into new markets (Florida for Rite Aid; New England for Walgreens) and fortifying market share in existing trading areas.

Rite Aid set the stage for its aggressive behavior at its annual meeting last summer when stockholders voted to double the number of authorized common shares. Rite Aid officials had stated previously that their current markets could support twice the number of drug stores there now.

The Grasses have stuck unflinchingly to their grab-it-while-we-can plan, possibly because earnings seem to have firmed in the fiscal year ended March 1. After twc straight years of significant net income slides—from $74.2 million in the fiscal year ended early 1984, to $69.9 million in the following 12 months, to $62.5 million the following fiscal year—Rite Aid turned in a strong first nine months.

Corporate sales were up 12.2% to $1.27 billion, and earnings rose 29.8% to $48.8 million in the period ended Nov. 29, 1986. Full-year figures had not been reported at presstime.

Filed with S.E.C.

Since Rite Aid took on considerable long-term debt to make its blockbuster purchase, it also took one more step to strengthen its finances. It filed for a shelf registration with the S.E.C. that would enable it to raise as much as $200 million through the sale of long-term bonds.

Rite Aid was awaiting S.E.C. approval in March. Executive vp Martin Grass told *Drug Store News*, "We'll probably sell some of the bonds when we think interest rates are right" to lock in low long-term rates and retire short-term debt incurred recently.

The acquired stores already exceed Rite Aid's volume averages, "but we need to bring their pretax earnings in line with the rest of the chain," he added. That's about 8% pretax on overall margins of roughly 30%. The younger Grass predicted that by the end of next fiscal year, in February 1989, these stores "should be fast approaching maturity and overall Rite Aid averages."

Rite Aid has one of the fastest expansion programs in the industry and has just passed Eckerd as No. 2 in store counts, thanks to its blockbuster purchase of 218 stores from Kroger and Sherwin-Williams.

Revamping purchases

Their integration is "on schedule," he said. Rite Aid is now taking inventories of the 81 Gray Drug stores in Florida. The 106 SupeRx stores in that state, plus nine in Alabama and Georgia, are being repriced and remerchandised, and in some instances, physically remodeled with new pharmacies, fixtures, checklanes, lights and floors. The 22 Drug Fair stores in Baltimore "may be twinned with ADAP auto parts and Encore bookstores," he added.

All will be renamed as Rite Aids, except for about 12 in Florida that will become deep discount Drug Palaces. "We only operate deep discounters in direct competition against other deep discounters," said Grass.

The chain will widen aisles and create more promotional space in the Florida stores, which have about 8,000 sq. ft. of selling space, compared with the Rite Aid 6,600-sq.-ft. average. Grass called it "taking advantage of space opportunities, not a test for larger format stores."

Rite Aid paid less than $500,000 for each store, an amount that barely covers inventory and fixtures. Grass called it "the cheapest price anybody has bought drug stores for in the last five or 10 years."

Rite Aid also got an eight-year-old, 228,000-sq.-ft. distribution center from Kroger as part of the deal. Its Melbourne, Fla., location is center of the state, making it ideal to service the high-growth markets of Broward, Palm Beach and Dade counties in the southeast, plus Orlando and the Gulf Coast Tampa-St. Petersburg area economically. The DC, which Rite Aid is operating already, can supply 300 stores and has extra acreage to expand.

Besides that, the new DC will be able to augment a new 265,000-sq.-ft. facility being built now in Winnsboro, S.C., that will be able to service 500 stores in a geographic area where it now has about half that. The Winnsboro DC, set to open this summer, will generally supply the Carolinas, Tennessee and Georgia, but the Florida DC brings added flexibility and backup support.

The two DCs combined will give Rite Aid the capacity to service up to 2,500 stores, Alex Grass said recently.

Capital expenditures

Not surprisingly, Rite Aid has scaled back store opening plans in the fiscal year just started to about 80 net new drug stores and 30 specialty (ADAP or Encore) stores.

Rite Aid also estimates it will undertake 150 major store remodels this year, among them 60 from the acquisitions, as part of its goal to have no store go seven years without a renovation. It will also add video to 100-125 stores chainwide, Martin Grass said.

Total capital expenditures will reach the $80 million to $85 million range. That includes further rollouts of POS scanning registers and pharmacy computers.

All stores serviced by Winnsboro will be equipped with scanners, making that DC "our first to totally eliminate the manual pricing function," Alex Grass said. At the end of the third quarter, Rite Aid had scanners in 339 stores and planned to equip another 100 by fiscal year end in March.

Rite Aid also stepped up its pharmacy computer installations, from 631 at the start of the fourth quarter to more than 700 by fiscal year end.

Eyes key player role in Rx mail order

In an expansion of its pharmacy effort, Rite Aid has ventured into mail order with its January creation of Rx USA.

The new division could account for $15 million volume by the end of its first full year of operation and eventually reach $50 million sales out of its current Oaklin, Pa., facility, said Dave Dalton, vp and director of professional relations.

"We can still get in on the ground floor before any consolidation takes place," said Martin Grass, noting similarities to the chain's video approach. That too was a retail segment populated by independents, which left an opening for Rite Aid to build a strong presence quickly.

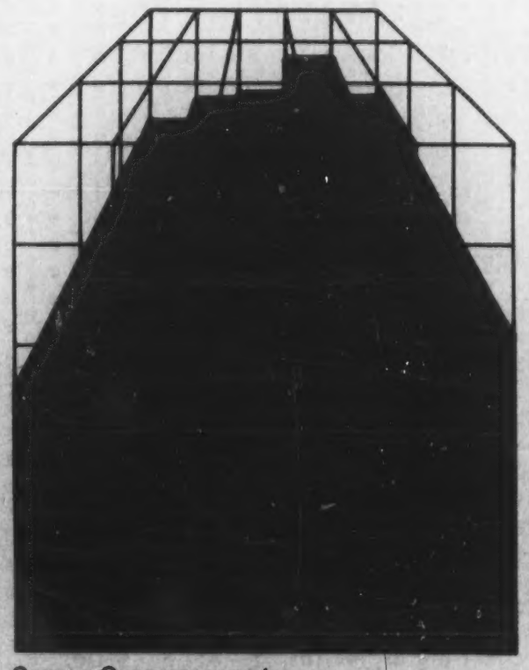
Grass, promising to be a "major factor in five years," said Rite Aid would "take advantage of our purchasing power" and use other efficiencies to make Rx USA profitable.

Cost containment measures

The mail-order division will buy 80% of its merchandise from the Harrisburg, Pa., distribution center of Rite Aid, which could pass along its volume savings. Rx USA is equipped to keep patient profiles, alert patients to possible drug interactions and provide drug utilization reviews, "which meets cost containment concerns of third-party payers," Dalton said.

At Rite Aid, pharmacy generates 37% of volume, and 39.1% of the chain's scripts are third-party reimbursed, up from 35.9% last year. Generics account for 27% of scripts filled and 19% of pharmacy dollar volume.

Rite Aid sales climb
(in millions of dollars)

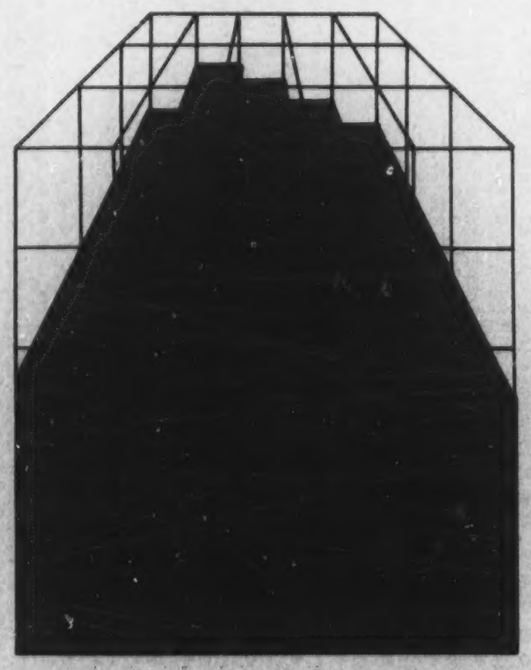


Source: Company reports

[A]Nine-months sales for period ended Nov. 29, 1986
Fiscal year ended Feb. 27, 1987, and figures weren't reported at presstime

[B]Restated to eliminate sales of Circus World and Heaven stores

Rite Aid earnings firm
(in millions of dollars)



[A]Nine-months earnings for period ended Nov. 29, 1986

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

New leadership focuses on revitalizing Peoples

ALEXANDRIA, Va. — Will the big bang theory be proven true at Peoples Drug Stores this year?

Many in the trade had their ears to the ground at presstime, expecting footsteps from the north to march in a new beginning at the slumping chain—which had its best year in fiscal '85 and has slid considerably since then.

The stage is set for massive changes at the nation's No. 7 chain.

For one, former chairman Sheldon "Bud" Fantle resigned this winter. He spent much of his career transforming Peoples from a lethargic giant into a lively, viable growth force in 14 states.

Secondly, Canadian parent Imasco Ltd. created the Imasco Drug Retailing Group, a joint Shoppers Drug Mart/Peoples entity headed by SDM chairman David Bloom. While Shoppers and Peoples will continue to operate independently, it is clear that a Canadian influence will be felt at Peoples, and the U.S. chain will focus merchandising efforts on health departments and pare back general merchandise.

Thirdly, David Eisenberg has been promoted to senior executive vp and coo of Peoples and reports directly to Bloom. He is credited with sharing and executing Fantle's vision, as together they injected life into Peoples and diversified the chain into home health care centers, optical stores, Hardee's food service in drug stores and Bud's deep discount stores.

Maintaining continuity

By keeping Eisenberg at the top, Imasco maintains high-level continuity and places a personality expected to work well with Bloom. Both are regarded as young, driven and respected retail drug executives. In a recent *Drug Store News* interview, Imasco president and ceo Purdy Crawford said Bloom's talents rest in "recruiting good people, bringing good people up through the company and delegating." Crawford noted Eisenberg's marketing background and called him "exciting."

No further management changes were announced, although industry executives expect a round of consolidation soon.

The leadership at Peoples will first have to reverse a downward earnings trend before moving Peoples back on track toward Fantle's ambitious 3-2-1 goals: a 3% net-to-sales ratio, $2 billion sales and 1,000 stores.

In the fiscal year ended March 31, 1986, operating profits slid to $40.1 million compared to $47.7 million in the prior year, which set a Peoples earnings record.

Earnings fell despite a considerable sales increase to $1.33 billion, compared to $1.03 billion in the prior year. Peoples ended the fiscal year with 332 stores, up from 758 the year earlier and just 527 in 1982, a measure of the chain's rapid expansion

9-month profit slide

Imasco hasn't reported full-year fiscal 1987 results yet, but Peoples slid from black to red in the most recent nine months ended Dec. 31, 1986. The chain showed an operating loss of $3.1 million in the period, a 110% drop from operating profits of $30 million in the comparable nine months of the prior fiscal year.

Imasco said the loss reflected lower gross margins. This was linked presumably to distribution problems now being resolved, which created merchandise overstocks and clearance markdowns.

Nine months revenues at Peoples rose 7%, however, to $980 million, reflecting in part comp-store sales gains of 2.9% and comp-prescription-sales gains of 14.8%

All figures are in U.S. dollars. Peoples ended the quarter with 830 stores, following its sale of 32 SDM stores in Florida to Eckerd.

Peoples' abandonment of the Florida market marks an apparent strategy reversal. Peoples had managed those stores for parent Imasco since May 1985, and they were to be a cornerstone of a major push into promising parts of Florida. Local market sources said, however, that the stores "struggled for identity" and suffered from an unfocused pricing strategy.

Neither Peoples nor Imasco has indicated whether this means Peoples' mid-Atlantic reach will be permanently blunted at the Georgia line, or whether Peoples would refocus on the state in a different way. Rite Aid's recent purchase of nearly 200 stores in Florida and plans to expand there may impact Peoples' thinking. Rite Aid also just established a presence in Baltimore and is pushing into the southeast as a more frequent competitor of Peoples.

For Peoples to combat this competition and make itself less vulnerable to discounting, trade observers said, it has to reinforce its health care image and price more sharply.

$10 million store redesign

Bloom told *The Washington Post* recently that Peoples will spend $10 million this year to redesign Washington, D.C., area stores to emphasize pharmacy, cosmetics and health aids, while paring back general merchandise. Bloom and Eisenberg have declined interviews with *Drug Store News* until their plans for Peoples are set.

"Peoples has become a general store with a pharmacy; we now want to become a pharmacy that sells general merchandise," Bloom told the *Post*.

Indeed, some of this thinking was evident as early as December. When Dart Drug Stores launched its aggressive recasting campaign late in 1986, Peoples responded with an ad focused on pharmacy and the million-plus scripts it has filled in the market over the years, local sources said.

And in a February 1987 flyer, Peoples took an unusual step to clear out toys, hardware, seasonals and other general merchandise categories. It offered markdowns as high as 50%

Market sources saw that as a sign of lingering inventory problems that can be traced to the 500,000-sq.-ft. distribution center in Fredericksburg, Va. Imasco's Crawford conceded recently that the DC operated initially at 10% of capacity and led to out-of-stocks but said that figure is now 60%, with a goal of 80% to 90% by the summer.

Out-of-stock woes

Market sources within Peoples and outside the chain lead to this account: Failed software at the DC said merchandise moved out of the DC, but instead it sat. This caused continual out-of-stocks on 20% to 30% of merchandise at store level and poor use of cube space on trucks and prompted reorders and a massive inventory backup at the DC.

Peoples was asking vendors to take back merchandise as recently as February, local sources said.

These combined efforts to restress health-related business and clear DC space for a new, appropriate product mix might better enable Peoples to compete in the Washington-Virginia-Maryland area, where it has about 40% of its stores.

That mid-Atlantic region has gotten tougher ever since Giant and Safeway added pharmacies and aggressively sought H&BA business. Giant has 85 pharmacies in 141 stores there and Safeway 86 out of 160. A *Post* report said both chains plan to open pharmacies in new and remodeled stores where leases don't restrict them.

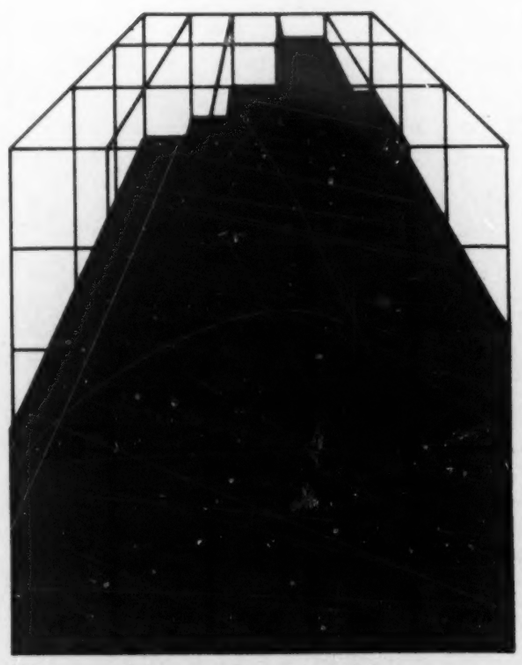
On top of that, Dart is seeing positive signs from its image campaign, with comp-sales gains in January and February that indicate some progress in developing customer loyalty.

When Imasco's Crawford told *Drug Store News* that Peoples should be profitable in fiscal 1988, he made assumptions while accepting some blame. He said Peoples might operate 30 to 50 fewer stores by fiscal year-end unless it could swap locations with other drug store operators who similarly would want to leave a weak market and fortify a strong one.

He said further that, "We at Imasco certainly didn't discourage any acquisitions. We probably encouraged some. And we're probably as much at fault as anyone."

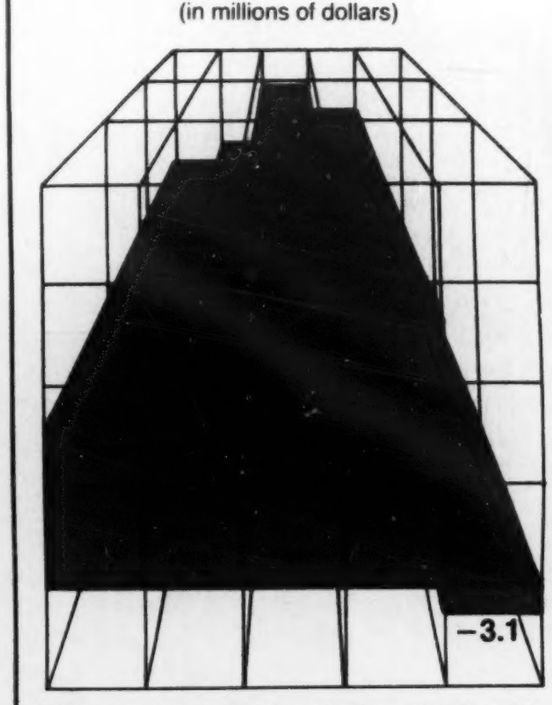
Too-rapid expansion through takeovers and diversification has been blamed for Peoples' recent performance. Sources close to the company felt efforts often went to the new retail ventures and management's eye was off the ball of core drug store retailing.

Peoples sales trend up
(in millions of dollars)



[A]Nine months ended Dec. 31, 1986
[B]1983 results. Performance for 1984 wasn't reported separately because Peoples was acquired by Imasco April 1, 1984, and the fiscal year was restated to reflect full year results.
All Peoples results are in U.S. dollars.
Source: Company reports

Peoples operating income (loss)
(in millions of dollars)



[A]Operating loss in the nine months ended Dec. 31, 1986
[B]1983 results. Performance for 1984 wasn't reported separately because Peoples was acquired by Imasco April 1, 1984, and the fiscal year was restated to reflect full year results.
All Peoples results are in U.S. dollars
Source: Company reports

Peoples uses an aggressive prescription pricing policy to offset competition from Giant, Safeway and Dart.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Shoppers' Ontario buy bolsters share

76-unit Super X Drugs provides growth vehicle for chain

Earlier this year, Shoppers Drug Mart, Canada's largest drug chain, acquired 76-unit Super X Drugs Limited, based in Ontario.

The acquisition gave Shoppers a much stronger foothold in the western section of the Ontario province, while providing an opportunity for Shoppers to boost its already high 28% national market share to a possible 32%. Some sources think the acquisition could push the share even higher, to as much as 35% overall in two years or more.

But, in addition to a heightened share of market, the acquisition gives Shoppers another formula with which to work. The Super X stores are much smaller than conventional Shoppers Drug stores: 3,000-5,000 sq. ft. on average for Super X, compared with 8,000 sq. ft. for an average Shoppers.

Adds to market mix

Now, as Art Konviser, Shopper's director of consumer affairs, points out, the chain has a growth vehicle for smaller Canadian towns and provinces.

"The acquisition fills a void in our marketing mix," Konviser said. "It gives us a chance to reach a different kind of consumer base. It'll let us put stores in locations that would only be secondary sites for our conventional format.

"We usually need a population base of at least 10,000 people to open a Shoppers store. We can open the smaller stores with a base of 6,000 or 7,000 people.

"We can take on more downtown locations, as well as go into smaller cities," Konviser added.

The Super X drug stores also break even at a substantially lower dollar volume than the conventional Shoppers stores. Many of the conventional Shoppers stores are located in malls, where rents are higher and there are also substantial costs for services like snow removal.

The smaller Super X stores have street or strip center locations and consequently have a "much lower break-even point" than the conventional Shoppers drug stores.

Konviser said Shoppers plans to assess both formats and open the smaller stores as either Shoppers or Super X, "wherever it makes sense."

129 stores added

For its fiscal year ended March 31, Shoppers will have added a total of 129 stores to its base, including the 76 Super Xs, plus 53 newly opened stores.

For fiscal 1988, Shoppers plans to open another 29 stores, including two more Super Xs. About five of the current Super Xs will either be closed or converted to the Shoppers' logo.

Konviser said growth in the Super X division, which will be operated separately from the Shoppers drug store chain, will be conservative at first, as Shoppers concentrates on "digesting and consolidating" the acquisition.

For fiscal 1987, Shoppers will have a total of 563 stores and sales in excess of $1.8 billion in Canadian dollars. That's an increase of about 12.5% over 1986 fiscal year-end sales.

Included in the universe of Shoppers stores are 10 combination Shoppers Drug/Food Basket Stores, 14 Shoppers Drug/Home Health Care stores, seven franchised Carnevale Deep Discount drug stores, 10 company-owned Howie's deep discount drug stores, and two brand-new super-combination Shoppers Drug/Food Basket and Home Health Care Center stores.

Food Baskets, Home Health

In 1986, Shoppers opened six stores with Food Baskets and four with Home Health Care Centers.

Growth will continue in these formats, said Konviser, but the decision to open Food Baskets or Home Health Care Centers will depend on individual store locations and market demographics.

"We will expand into this type of format wherever we see an opportunity," he said.

Konviser added that at least two more super-combination Shoppers with both Home Health Care Centers and Food Baskets will open in 1987, and there may be more "if the right locations present themselves."

24-hour stores

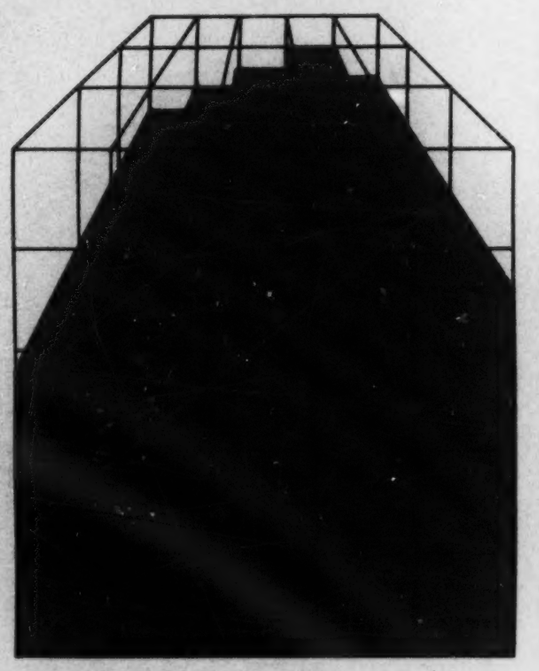
In 1986, Shoppers also opened two experimental 24-hour conventional drug stores, and Konviser said this concept also shows promise for further expansion.

"In addition to being very successful," he said, "it's also an important move for us, because it established Shoppers as being a concerned health care professional.

"People sometimes need services on a 24-hour-a-day basis, and by having 24-hour stores, it shows that Shoppers understands that need and wants to meet it."

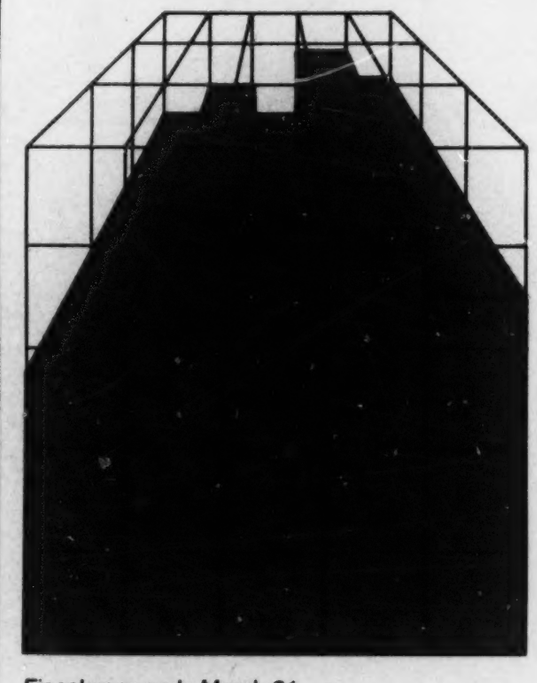
However, he added, "We have to look at the individual situations. These have to be established stores, and they have to be stores near hospitals."

Shoppers Drug Mart operating earnings
(in million dollars Canadian)



*For nine months ended Dec. 31, 1986.
Fiscal year ends March 31
Source: Company reports

Shoppers Drug Mart sales
(in billion dollars Canadian)



Fiscal year ends March 31
*For nine months ended Dec. 31, 1986.

Shoppers to install scanning registers

Shoppers Drug, which has invested in point-of-sale registers with scanners for most of its company-oriented Howie's deep discount drug stores, is now experimenting with electronic scanning registers in three of its conventional Shoppers drug stores.

Earl Biderman, Shoppers vp-management information, said Shoppers will put scanners into about 11 more Shoppers during this year. Moreover, the chain will add a scanning system to the one existing Howie's that lacks it and plans to open all future Howie's with scanning systems.

At the end of March, Shoppers was operating a total of 10 Howie's Deep Discount drug stores and about 500 Shoppers drug stores.

Shoppers is also continuing to upgrade its front-end registers, while outfitting its pharmacy departments with Rx computers.

At the end of this fiscal year, about 110 Shoppers stores had electronic front-end registers. Biderman said the new registers will be installed in additional stores at the rate of about 90 stores a year, including installations in new stores.

At the end of this fiscal year, too, about 200 Shoppers stores had pharmacy computers, a 100% increase over last year. Shoppers hopes to have Rx computers in about 360 stores by the end of fiscal 1988 and to finish the installation before the end of this decade.

Food plays an important part of the merchandising mix in select Shoppers Drug Mart stores. In 1986, SDM opened six stores with Food Basket departments and now has a total of 12 combination drug/mini-food stores.

Bloom appointed chairman in '86

TORONTO — The year 1986 was an eventful one for David Bloom, ceo and chairman of Shoppers Drug Mart, Canada's largest drug chain.

In June, Bloom, a 23-year Shoppers veteran and its ceo since 1983, was also named chairman of the $1.6 billion chain. The move made Bloom one of the youngest chairmen ever to serve in the retail drug store industry.

Last January, Shoppers' parent, Imasco Ltd. of Canada, merged the Shoppers drug store division with its sister drug store division in the United States, Peoples Drug, and Imasco chose Bloom to oversee the operation of Imasco's newly created Drug Retailing Group.

Toronto-Alexandria commute

Today, Bloom is spending about 50% of his time commuting between Toronto, where Shoppers is headquartered, and Alexandria, Va., where Peoples is based.

Part of Bloom's new responsibilities include working with David Eisenberg, Peoples' senior executive vp and coo, to eliminate the problems that have had a negative impact on Peoples' earnings.

Bloom is still overseeing Shoppers' growth in each of the company's various divisions: conventional franchised Shoppers drug stores and franchised Carnevale deep discount drug stores, company-operated Howie's deep discount drug stores, combination Shoppers Drug/Home Health Care Centers and combination Shoppers Drug/Food Baskets, which are drug stores with miniconvenience food departments.

Goal for decade

Strategic plans call for Shoppers to become a $2 billion chain of approximately 600 stores by the end of this decade.

Bloom and Eisenberg, sources say, are still working out a reformulation of strategic growth plans for the 850 stores in the Peoples division.

Under Peoples former ceo, Bud Fantle, the chain was striving to reach 1,000 stores and $2 billion in sales, while maintaining a 3% net to sales ratio.

Before Peoples can do that, sources say, Bloom and Eisenberg will have to devise a plan for doubling the chain's current operating earnings.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Thrifty conventionals and Jrs. growing strong

LOS ANGELES — Thrifty Corp. focused its retailing mission by rolling out its Thrifty Jr. format, bursting into new states with sporting goods stores and dropping its Trak Auto West and Crown Book operations.

Entering 1987, the company was poised for continued strong growth in conventional Thrifty units and the downsized Jrs., with backing from the Pacific Lighting Corp., which became its new owner in June.

Leonard Straus, Thrifty chairman and ceo, termed the merger "a new beginning, with expanded opportunities."

"Now we have the capability to take advantage of additional opportunities, which can lead to accelerated sales and earnings performance," Straus said in Pacific Lighting's annual report for 1986 ended Dec. 31.

Merger impact

The merger—which was startling after 57 years of Thrifty independence—was endorsed by shareholders of both companies on Aug. 5, and Straus was elected to P.L.'s Board of Directors.

Besides giving Thrifty access to the credit lines of the diversified holding company and utility ($5 billion in sales in 1985), Thrifty can benefit from the holding company's land development and construction business as it rolls out new stores.

The utility saw Thrifty as a stabilizing influence on its own sales and earnings.

Pacific Lighting will have no reason to tamper with Thrifty's operations. "They seem to know what they're doing and have been doing it very successfully," noted a Pacific Lighting official recently.

Sales and earnings

Thrifty continued to produce strong sales and earnings results in 1986, although expenses stemming from the merger with P.L. dampened earnings somewhat. Thrifty's fiscal year end was moved from Aug. 31 to Nov. 30, and the chain reported its most recent 12-month results based on that new calendar.

Sales continued on the 10%-12% growth pace of recent years, with operating revenues at $1.55 billion, up 10.7% from $1.4 billion in 1985. Same-store sales were up 5.1%.

Net income was $32 million, a gain of 5% from 1985's $30.7 million. The increase, however, is off Thrifty's average annual compound growth rate for net income of 15.6% achieved in recent years. Earnings were dampened by a $1 million cut in operating income stemming from a LIFO inventory adjustment that was $2 million greater than the 1985 LIFO adjustment.

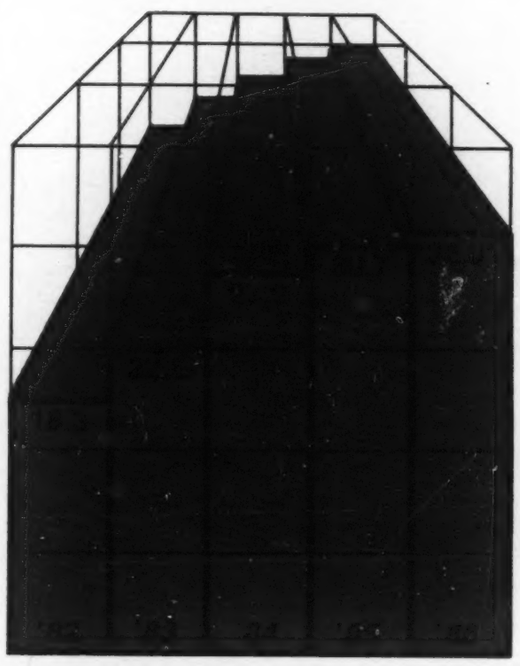
Also sapping earnings were higher insurance costs and computer software expenses incurred to adjust to P.L.'s accounting practices, the company said.

Earnings were reduced by $1.3 million as a result of the 1986 Tax Reform Act, which eliminated investment tax credits for the year.

Thrifty analysts said that expenses relating to the merger helped reduce the year-end operating margin to 4.6%, from the 5.1% level of the previous two years.

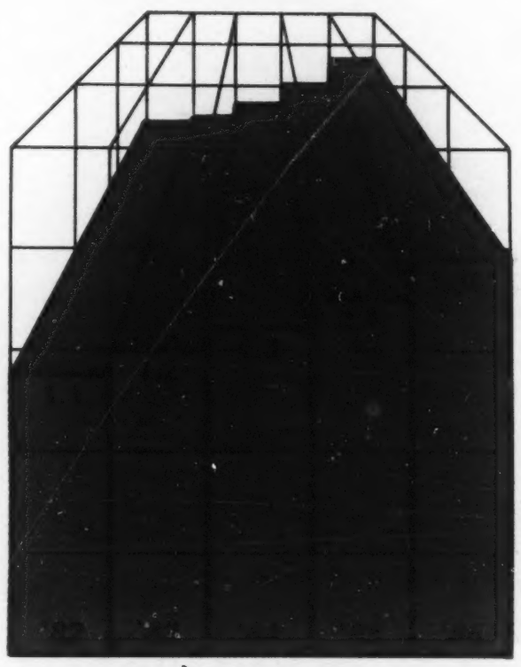
But the company continued to post return on equity well above the average for the industry. Its 1986 R.O.E. was 21.5%, compared with 21.9% in 1985 and 18.9% in 1984.

Thrifty Corp. net income grows 5%
(in millions of dollars)



*Year ended Nov. 30
Source: Company reports

Thrifty Corp. sales jump 10.7%
(in billions of dollars)



*Fiscal year ended Nov. 30

Thrifty Jr. launched

In 1986, Thrifty launched a bold, sustained bid for small-town markets with the Thrifty Jr. prototype (3,000-11,000 sq. ft.). It started with the purchase and overhaul of the 15-store Southern Californian Drug King chain in February. By November, there were 32 Thrifty Jrs., including 12 converted Guild Drug stores acquired in April and four Guy's units bought in August.

While the Jrs. are targeted at 5,000-7,000 population markets, the chain also announced it would install Jr. units in Ralphs Grocery Co.'s Giant superwarehouses in Southern California. It said 10 small Jrs. (4,500 sq. ft.) with pharmacy and pharmacy-related merchandise will sublet space in the warehouse stores, with separate entrances.

The Thrifty Jr. thrust means Thrifty will double its recent annual new-store rollout. The company said of 50 new units planned for 1987 (apart from any acquisitions), 25 will be Jrs.

Thrifty said in the annual report that some Jrs. will be built from the ground up, a new strategy that apparently reflects the company's access to P.L.'s fiscal resources. In launching the Jrs. 12 months ago, it had said stores would be opened either in leased space or through acquisitions.

Thrifty ended the year with 562 conventional drug stores, a net increase of seven. It said that 75% have been converted to the Perfecto prototype, and the whole chain should feature the format by decade's end.

Sporting goods thrust

Underlining its commitment to the recreation market, Thrifty bought sporting goods stores that made it the country's third largest retailer of such goods. It gained the 15-store, Colorado-based Gart's in March, moving into the state for the first time, and bought more Midwest units. Ending the year with 118 sporting goods stores, a net gain of 32, it planned to open 20 in 1987.

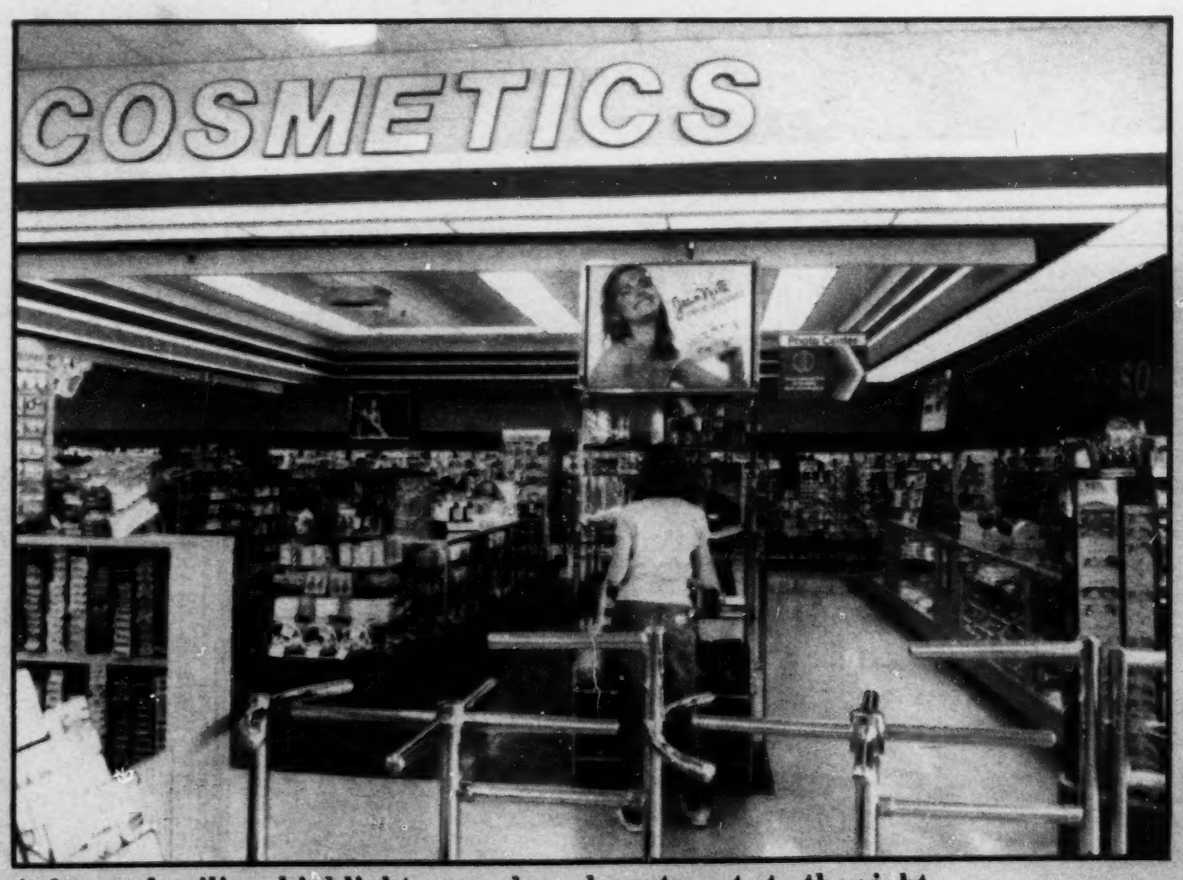
Thrifty divested the Trak Auto West stores and its 50% interest in the Dart Group's Trak Auto business, after losing over $11 million since 1983. It also sold back to Dart its 34% interest in Dart's Crown Book chain.

Computerization goal

The chain expects to complete the rollout this year of pharmacy computers, which began in a $60 million 1985 joint venture with IBM. By November, 464 stores had pharmacy systems. A test installation of POS systems employing an IBM Series I computer is also under way.

In 1987, Thrifty plans to use its store openings to solidify market positions in its nine Western states. Last year, Thrifty backed away from entering western Colorado with drug stores, as a consequence of the area's depressed economy.

The vast majority of Thrifty stores are in California, with 302 conventional Thriftys and 25 Thrifty Jrs. in Southern California, and 170 conventional and six Jrs. in the northern half of the state.



A dropped ceiling highlights core drug departments to the right.

Thrifty creates a boutique effect in this West Van Nuys, Calif., store using etageres and colored tile.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

CVS increasing focus on convenience, Rx

WOONSOCKET, R.I. — CVS Drug Stores, which had another very strong year in 1986, is beginning to react subtly to new merchandising opportunities in its various regional neighborhood markets.

The 634-store chain, which is located primarily in urban and mall markets in the Northeast, has always been known as a mass merchant specializing in a wide variety of health & beauty aids and over-the-counter drug products.

CVS is carefully preserving that identity, while continuing to upgrade pharmacies in as many stores as possible. The chain is also putting new emphasis on the merchandising of select "convenience" general merchandise.

In certain stores and markets, the chain is experimenting with a small assortment of convenience food items such as milk, juices and snacks, as well as with reasonably priced small household items such as oven mitts, microwave accessories and dish drainers.

Most stores now have fairly large departments for women's hosiery, and many others are starting to reserve space for T-shirts and men's briefs.

The point, according to company sources, is to broaden CVS's appeal to the "convenience-minded shopper" while building on CVS's strength as a full-range drug store with a broad assortment of traditional drug store items.

CVS is also working on a new prototype for its pharmacy departments. About 430 stores (approximately 68% of all CVS stores) now have pharmacies, and management is trying to enhance CVS's perception as a "neighborhood drug store."

The newest prototype for the pharmacy department includes a small, low consulting area, located at the far side of the department. If a customer wants to talk in private about a problem, the pharmacist can draw him or her off to the side for a quite consultation.

The new prototype also includes the words "Ask the pharmacist" as part of the logo on the sign over the pharmacy department. The new logo has warm red background tones with the words written in white. The letters "CVS" are subtly reproduced throughout the red background as an integral part of the graphic design.

"What we want people to realize when they see the words 'Ask the pharmacist,' said a company source, "is that we are a neighborhood store and that we do want people to ask questions of our pharmacists. It's just a small thing, but we want them to know that we hope they'll confide in us and talk to us."

From the mid-70's on, CVS has been one of the industry's fastest growing and best performing drug chains.

At a time when competition in the drug store marketplace is intensifying and disinflation has been retarding sales growth, CVS last year generated an 11% increase in same-store sales and a 16% increase in total sales, to $1.18 billion.

Operating profits for the chain and for its sister drug store division, the 11-unit Freddy's deep discount drug chain, were also up 12% in 1986, to $88.1 million.

Because of its success, management has no desire to change the CVS marketing strategy radically, but the chain is aware that there are untapped opportunities for creating new sales by adding new items to the CVS mix.

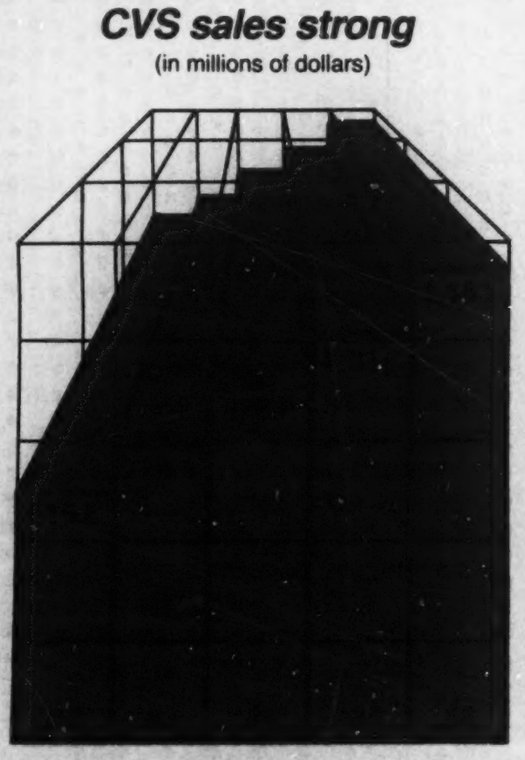
Slow-turning items, which CVS can quickly identify through its sophisticated systems of inventory control, are constantly being dropped from the CVS mix. Replacing them are new products from the traditional CVS categories (e.g., shampoo and hair color) and some of the newer CVS categories, such as men's underwear, cold juices and microwave accessories.

By expanding the mix carefully, CVS is hoping to bring its traditional shoppers in more often as well as lure new shoppers.

Same-store sales for theCVS chain were up 11% last year, and part of the reason is CVS' image with consumers. Shoppers say they like the ambience: wide aisles and bright, clean stores make shopping "convenient and pleasant."

CVS sales strong

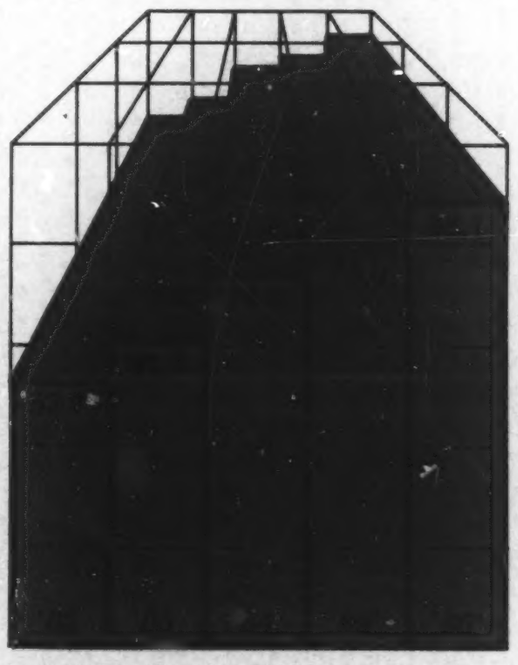
(in millions of dollars)



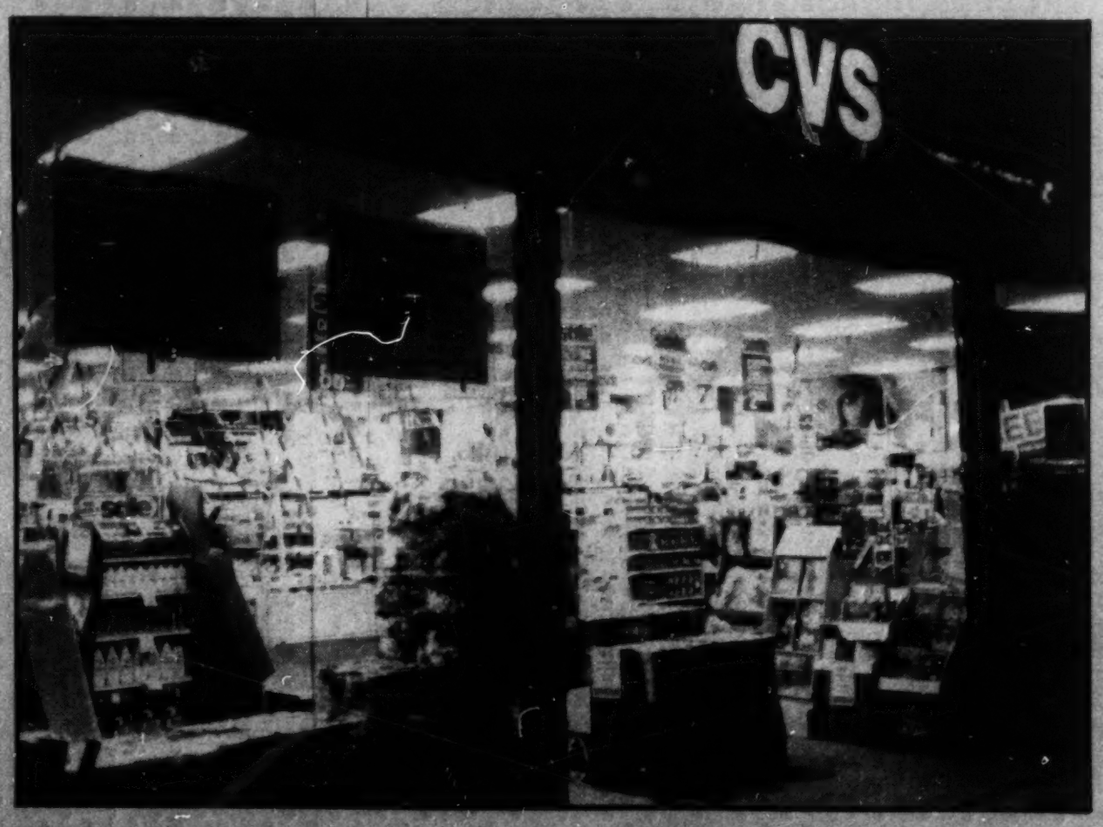
Source: CVS annual reports
Fiscal year ended Dec. 31, 1986

CVS operating income up

(in millions of dollars)



*Includes profits from Melville's deep discount drug store chain, Freddy's and CVS' conventional drug stores
Source: CVS annual reports



CVS is out to enhance its image as a neighborhood drug store. The 634-unit chain, which has high penetration in many Northeast markets, is expanding at the rate of about 40-50 new stores a year. The emphasis is on serving "the convenience-minded" neighborhood shopper.

Chain eyes Southern California in its quest for new store sites

CVS, which last year opened approximately 45 new stores, is hoping to open another 50 in 1987.

About 15 of the new units will be in California, where CVS is in the process of building a 200,000-sq.-ft. warehouse in Rancho Cucamonga, an industrial park about 50 miles east of Los Angeles.

The chain opened its first California store about nine years ago and now has about 40 units there. Sources say CVS would like to raise that number to at least 70 "as soon as possible."

CVS is said to be looking for acquisitions, particularly in the Southern California market, but for the time being, nothing major is on the burner, sources say.

Therefore, short-term growth will probably come gradually as CVS searches for good sites for new stores and as they find one or two store acquisitions.

Because most of the chain drug stores in California are traditionally larger "super" drug stores with a broad range of products in their mix, there is probably room in the California marketplace for bantam drug stores like CVS.

Also, of course, it's clear that CVS' management wouldn't be building a 200,000-sq.-ft. warehouse in California unless they were sure they can succeed with their bantam concept in California cities.

In the next two years or so, CVS plans to add another 100,000 sq. ft. of office space to its corporate complex in Woonsocket, R.I., and within three to five years, company sources say they will hire between 300 and 500 more people to fill support positions in the complex.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

One of Pay Less' huge superstores features a complete yarn and sewing department.

Pay Less plans to use savings from new tax law to provide additional clerical help in service departments, such as cosmetics.

Teamwork, computers key at Pay Less NW

Fast-growing chain topped $1 billion sales mark

WILSONVILLE, Ore. — Pay Less NW took several major strides in the past year with the help of parent K mart, a veteran management team and strong internal systems used to manage merchandising, distribution, store operations and more.

In 1986, the rapidly growing chain passed a major milestone, reaching well over $1 billion in sales. It did so with the broadest merchandise mix in the chain drug industry, and a renewed commitment to customer service and presentation. Noted chairman Ed Hart: "We offer a better selection and a better presentation of our merchandise than our competitors, and the attitude of our workers shows."

Perhaps better than most drug chains, Pay Less draws on computerized systems as effective tools in buying, moving and displaying inventory. On-line systems help build accurate sales histories of every category and adapt the mix in each store accordingly. The system worked well for the company last year, as Pay Less modified its store plan by cutting the full-line prototype size down to 27,000 sq. ft. from 30,000 sq.ft.

The reduction enabled Pay Less to save on real estate costs for new stores by making more productive use of space with tighter, computer-assisted planograms, more endcap displays and higher fixtures.

Scaled-down formats

The chain is also developing smaller store formats to fit a variety of situations, even as it backs away from plans to expand its Key Drug prototype to new markets. The smallest Pay Less prototype, now at 20,000 sq. ft. (17,000 selling), is likely to be augmented by a 10,000- to 15,000-sq.-ft. format for certain low-density and urban markets, according to senior vice president of real estate Hank Hummelt.

The smaller stores feature cutbacks on nondrug categories like sporting goods and food, but they have enabled the chain to tailor itself to markets as small as Taft, Calif., a town of 5,000 west of Bakersfield, and Mount Shasta, on even smaller community in remote north-central California.

Another big key to Pay Less' expansion plans, however, has been the development of Wonder World, a large-variety discount format, which represents a joint effort between Pay Less and its corporate parent. The first Wonder World—featuring a wide array of products including apparel, general merchandise and bulk food items—was unveiled last July in Bozeman, Mont. Additional units were opened in some dozen other former discount store locations in Colorado, New Mexico, Texas and Oklahoma. Pay Less is now studying early results.

The 40,000- to 60,000-sq.-ft. Wonder World units represent the blending of some of the best elements of three retail formats: K mart, Pay Less and Pay Less' Value Giant deep-discount vehicle. Hart noted last fall that the chain's future growth would include both the Pay Less and Wonder World formats.

Aggressive growth posture

One thing that appears certain for Pay Less is that its growth posture will remain an aggressive one. Backed by K mart's huge financial resources, the chain added roughly 40 new stores last year, ending with 218 stores in 10 states in the West and Southwest. Using its Wonder World format, Pay Less penetrated as far east as Texas and Oklahoma. That kind of geographic diversity leaves plenty of room for fill-in expansion, say its managers—especially in smaller towns neglected by many chains.

"There are still a lot of markets that have been overlooked by Wal-Mart and other competitors, and we can now go in with either a Pay Less drug store or a Wonder World," said Hart.

Pay Less is also pushing hard to get a jump on competitors in some of its biggest markets, like the San Francisco Bay area, San Jose, Sacramento and Fresno, Calif. Said one company executive, "The more good locations we can land in those markets before anyone else does, the more cost-effective our advertising and distribution."

California will remain a key part of the chain's growth plan. Pay Less has also re-entered the southernmost part of the state, with stores in Oceanside, near San Diego, and communities outside Los Angeles. Barring a major acquisition, however, the company will probably concede the Los Angeles market itself to traditional market leaders Thrifty Corp. and Osco/Sav-on.

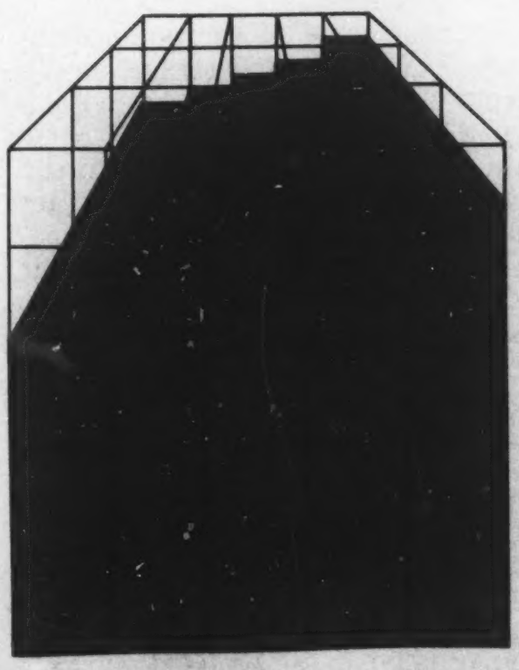
Subtle benefits of merger

Pay Less' two-year association with retail giant K mart has helped propel its push into new markets. But more subtle benefits from the merger have also been at work—most notably in the sharing of expertise in certain merchandise categories. Drawing on the know-how of several former K mart merchandisers and buyers, Pay Less has added major apparel departments in several dozen stores and will extend the program this year.

The apparel departments average 3,000 sq. ft. and feature surprisingly sophisticated arrays of casual clothing styles for men, women and children. "These aren't just token clothing sections," noted general store operations manager Jerry Kuske last fall. "We have good people from K mart now working for us in apparel, and we're going to keep our styles and fashions up-to-date and quality-oriented."

K mart and Pay Less are also sharing know-how in areas like hardware, H&BA and pharmacy.

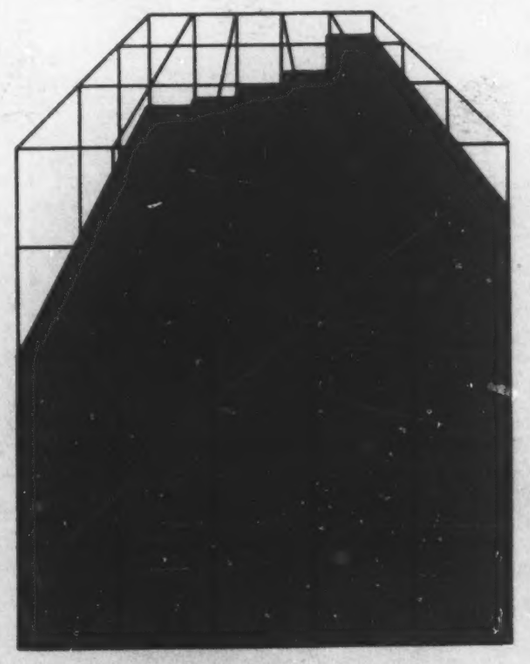
Pay Less NW sales rise
(in millions of dollars)



Source: Company reports
Fiscal year ended Jan. 31, 1987

Pay Less positions greeting card department up front for maximum traffic.

Pay Less NW store count



Source: Company reports

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Hook SupeRx marriage streamlines operations

CINCINNATI — Kroger Co.'s move to focus its retailing priorities put the SupeRx and Hook drug store chains in the vortex of the merger and acquisitions whirlwind that swept through the industry in 1986. The nation's largest publicly held supermarket chain sold off or closed all of its 891 drug stores to concentrate on developing combination stores.

The divestiture created a new Midwest drug store company—Hook SupeRx Inc.—led by Philip Beekman, a former president of Joseph E. Seagram & Sons. Beekman and a management group of SupeRx and Hook officers bought 686 of the drug stores put on the block by Kroger.

While the Indianapolis-based Hook chain remained intact as part of HSI, Kroger sold SupeRx's far-flung network in pieces. Rite Aid bought 115 stores in Florida, Alabama and Georgia, including 106 units in promising markets throughout the Sunshine State.

Concentrate on combo units

Gerald Wolken, former Kroger drug division president, who decided not to join Beekman at HSI, bought 48 SupeRx stores from Kroger: 28 in Phoenix, SupeRx's western-most outpost; 9 in Alabama; and 10 in Georgia.

Kroger, which opened its first SupeRx store in 1962, said it wanted to concentrate on its Kroger and Dillon combination food/drug stores. It pointed out that the average combo generates $23 million a year, with the drug store side producing $3.45 million to $3.91 million of that. By comparison, the typical SupeRx generates $1.5 million in annual sales, and Hook's, $1.2 million.

The divestiture decision was helped by Kroger's concern about building its stock value at a time when supermarket companies had become chief targets for corporate raiders. The divestiture followed on the heels of the Dart Group's hostile bid for Safeway Stores Inc., which in defense accepted an offer by Kohlberg, Kravis, Roberts Inc., the investment firm.

Future lay in groceries

But even in the early 1980's, Kroger was channeling proportionately fewer capital dollars for SupeRx growth, as it became convinced that its future lay with the grocery business.

Kroger ended the 1986 year with a strong sales performance that was boosted by a new emphasis on sales of nonfoods within its superstores and combos.

If the drug division purge added to Kroger's operational health, it also seemed to infuse new energy into the SupeRx and Hook's Midwestern drug store operations, acquired by HSI.

The management group gained a compact version of the Kroger drug division, which accounted for about $1 billion in sales in 1986. The stores in Ohio, Indiana, Illinois, Kentucky, Tennessee, West Virginia and their geographical proximity should create management and operational efficiencies.

Opportunity to streamline

HSI inherited an opportunity to streamline the drug operations, since Hook and SupeRx were run as virtually separate companies under Kroger.

While the new management planned to continue operating the two chains on separate tracks, leaving their distinct merchandising formulas in place, it began integrating operations, starting with management.

The buyout—a $415 million deal that was capped on Dec. 9—includes 44 chain officers as equity investors, minus Wolken, and without R. Douglas Reeves, the Hook Drug chairman who had been named executive vp for Kroger drug operations in 1986. Reeves, like Wolken, decided not to join the HSI team.

A new management structure was set up for both chains. Gary Hendren, SupeRx's former vp-marketing, was named executive vp and coo for SupeRx, operating in Cincinnati. Hook executive vp Newell Hall was named executive vp and coo of Hook, headquartered in Indianapolis.

Reshuffles middle management

A reshuffle of second-tier management at SupeRx cut out senior-level positions that were superfluous in the scaled-down new company. Some SupeRx regional merchandising posts were eliminated. The Hook's division followed suit by making a series of management changes designed to streamline operations.

Kroger and Goldman Sachs, the New York investment banking company, were key equity investors, each holding a 37% share. HSI also used loans from a consortium of banks, and Goldman Sachs sold high-yield bonds. HSI has set up a Sept. 1 to Aug. 31 fiscal year.

The new company acquired 335 Hook drug stores, 313 SupeRx stores, 26 Hook's convalescent aids centers and 12 Drug World deep discount stores.

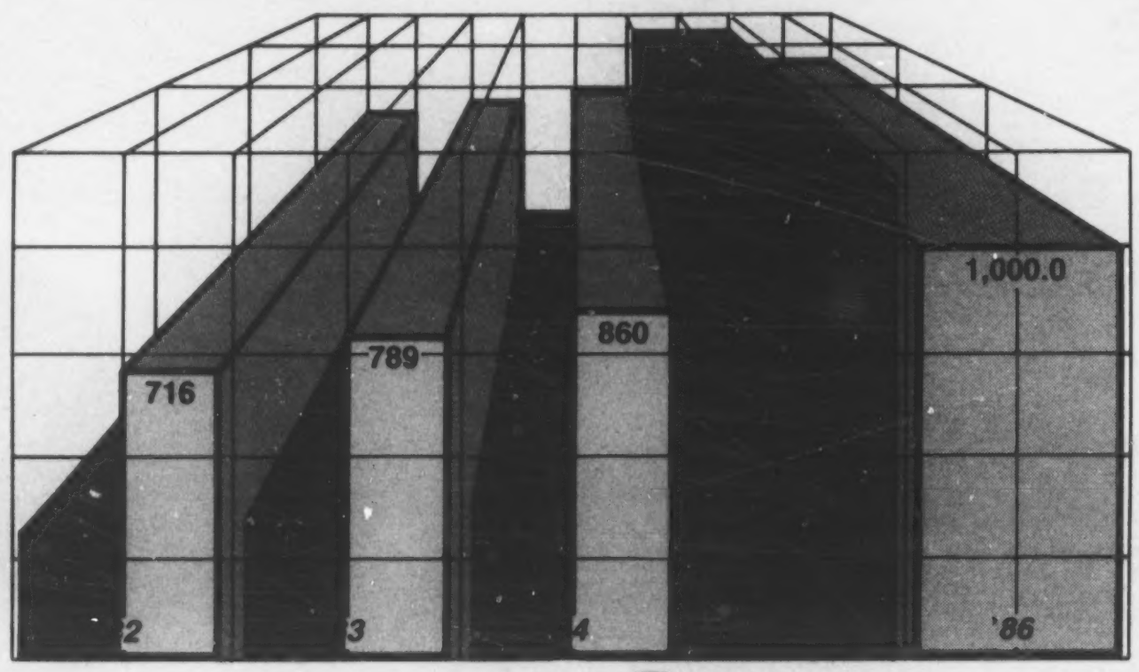
Product pipeline open

Through interim agreements, HSI and Wolken's stores continued to receive product through Kroger's Peyton Group, which has been the distribution arm for Kroger in foods and nonfoods since 1980.

SupeRx continued rolling out its TEC gross profit cash register system, which automates the calculation of gross profit, as well as other functions. Developed in-house, the system was scheduled for a rollout into all stores over the next two years, replacing NCR electronic cash registers.

In 1986, SupeRx concentrated on building market share in key markets of Cincinnati and Columbus, Ohio; Nashville and Knoxville, Tenn.; and Peoria, Ill. In Nashville, the chain unveiled its first store with a race track design. The 10,665-sq.-ft. prototype employed a 6-ft.-wide inner track with short gondola runs radiating outward.

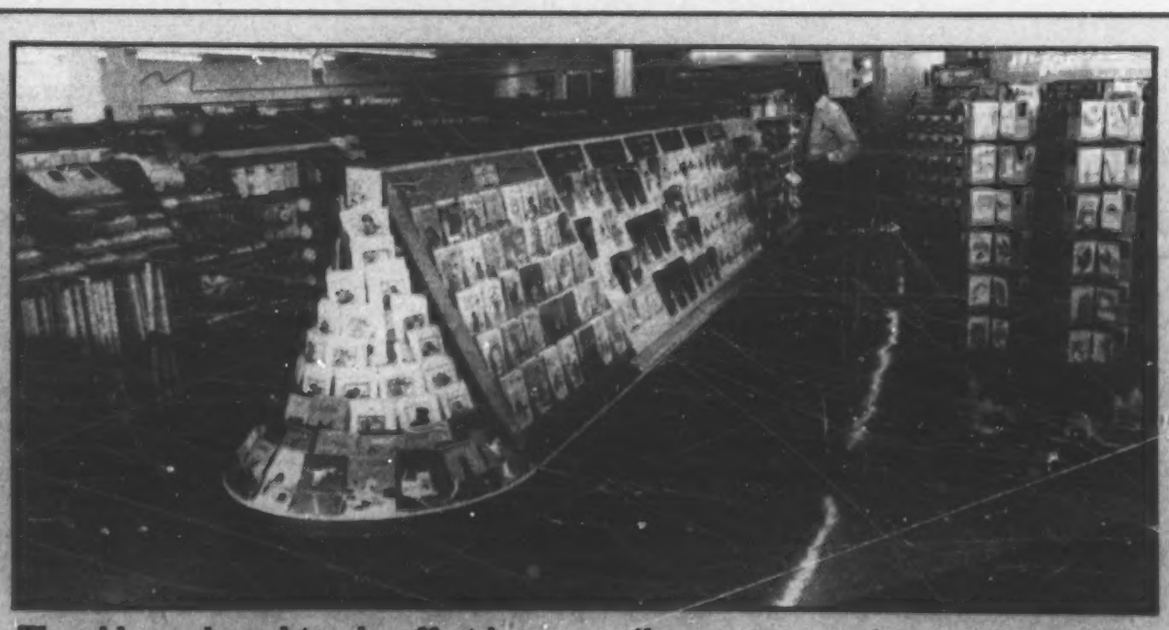
Hook SupeRx Inc. starts with $1 billion in sales
(in millions of dollars)



*Includes 10 months of Hook sales
Source: *Drug Store News* research

SupeRx's first store with a race track is in the Greenhills section of Nashville.

Shortened gondola runs radiating from the 6-ft.-wide track give many departments their own homes and create endcap opportunities.



The oblong-shaped track, offset by green tile, encourages shoppers to circulate and view high-gross merchandise.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Gray Drug Fair struggles to realize its potential

Factions vie over Sherwin-Williams division

CLEVELAND — In 1986, Sherwin-Williams made a decision long expected within the chain drug industry. If finally agreed to sell its Gray Drug Fair division to two bidders: Rite Aid Corp. and a group of inside managers and investors led by Gray general manager and president Carl Bellini.

That decision culminated five years of troubled history for the 460-store drug chain under the paint and coatings giant—a history marked by disappointing earnings, unsteady sales gains, a loss of focus in its marketing efforts and a revolving door within the president's office. Thus, the change in Gray's fortunes was generally welcomed by those both inside and outside the company.

In its last two years as a single entity and a subsidiary of Sherwin-Williams, Gray's sales and earnings have staged a modest comeback, as efforts to control costs and refine the merchandise mix began to bear fruit. Operating profits in 1986 rose to about $10 million from $6.7 million in 1985 and just $82,000 in 1984. That was the strongest performance the chain turned in since 1982, when Gray posted pretax earnings of $13.9 million.

Bottom line contribution

By industry standards, however, Gray's contribution to its parent company's bottom line has remained meager. After trying for five years to find the right combination of senior management and marketing strategy, with a dizzying succession of top managers including Al Towle, Jim Mastrian, Mac Allen Culver, Fred Barney and Bellini, Sherwin-Williams finally decided to put the drug chain on the open market last summer. In doing so, it abandoned its patient strategy of trying to nurture Gray back to robust vitality, opting instead to concentrate on its core paint and coatings business.

Sherwin-Williams chairman John Breen had earlier conceded that Gray's problems were more intractable than the company had foreseen. Those problems included costly and inefficient distribution patterns, out-of-stocks, poor management of inventories and of gross margins, shrinkage and a lack of quality inventory movement information.

In addition, Gray was plagued by highly competitive conditions in most of its markets, against chain drug powerhouses like Walgreens, Revco, Rite Aid, Peoples and Eckerd Drug.

Over the years, Sherwin-Williams has tried a wide range of responses to get the drug chain back on track, with mixed results. Besides rotating Gray's leadership often—no one since the acquisition has served as president of the chain longer than Al Towle's two years—the parent company has poured millions into store expansion and improvements in attempts to shore up market share in Gray's three divisions in Florida, Ohio and the mid-Atlantic region.

Merchandise mix evolved

Gray's merchandise mix has also undergone continual evolution as its leaders sought to broaden the business with more high-margin, nondrug categories and more promotional items. Circular advertising was increased, and attempts were made to make Gray and Drug Fair stores more price-competitive in high-density markets. Meanwhile, Gray abandoned a short-lived experiment with deep-discount retailing last year, closing its single Price-King off-price drug store.

To cut costs further, Gray also consolidated its two Florida distribution centers last year into a single, 150,000-sq.-ft. facility. Prior to the chain's breakup, it moved about 75% of store merchandise through its three regional distribution centers in Florida, Ohio and the mid-Atlantic region.

None of Gray's efforts, however, were enough to convince Sherwin-Williams to remain in the chain drug business. Its decision last July to seek a buyer for the chain was a strategic move, noted chairman John Breen, which "better serves our interest.

"We'll concentrate on our coatings and coatings-related business as opposed to deploying our resources into two legs of business," Breen said at the time.

The move was praised by analysts, but Sherwin-Williams could hardly have picked a more inopportune time to put 460 drug stores on the market. At roughly the same time, the Kroger Co. put its 891 SupeRx and Hook drug stores up for sale, creating a flood of buying opportunities for the few buyers able to finance major acquisitions last year.

The issue wasn't resolved until the end of the year. In December, Sherwin-Williams announced that it had come to terms with Rite Aid for the sale of Gray's 81 Florida stores and 22 Drug Fair units in Baltimore, at a price tag estimated at about $500,000 per store. The bulk of the chain, including 358 Gray and Drug Fair stores in Ohio and the mid-Atlantic states, was offered to the Bellini group following a protracted bidding war between Bellini and former president Towle.

LBO bid in doubt

Bellini's successful bid to take Gray private, however, still hinges on his ability to raise the estimated $100 million to $150 million needed to finance a leveraged buyout. To concentrate fully on those efforts, Bellini again stepped aside as head of the drug chain in March, in favor of new acting president Jim Mastrian, who headed the chain in 1985 and early last year.

Bellini, who has served as interim president of Gray on and off since 1983, was originally scheduled to finalize the deal early this spring, according to Sherwin-Williams. He has reportedly been working with Citibank and the New York-based Trump Group to come up with a buyout package.

The ability of the Bellini group to raise the necessary financing, however, remains in doubt. Meanwhile, other groups are rumored to be interested in the stores, including The Trump Group, which holds a 50% stake in Pay 'n Save's drug store division, and former Peoples Drug Stores chairman Sheldon "Bud" Fantle, until recently a Gray competitor.

Former president Al Towle, whose bid for Gray was initially rejected in favor of Bellini, has also expressed a continued interest in the chain. Towle said early this year that his bid "is on the table" while Sherwin-Williams gives Bellini time to finalize the deal. The veteran retailer told *Drug Store News* in late March he is still seeking control of Gray.

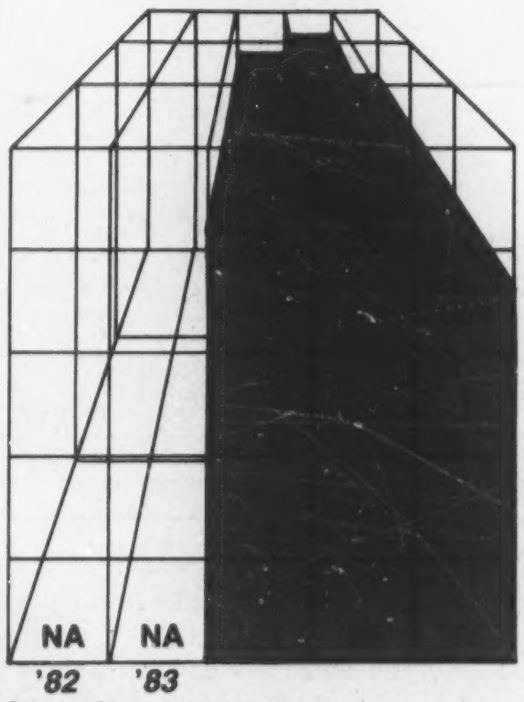
Whatever party emerges victorious in the bidding will inherit a slimmed-down, more compact drug chain with ample potential, as well as problems. The problems will include a heavy debt load, shrunken market share in some areas, low employee morale in some quarters, and a number of unprofitable store locations.

Strong Rx franchise

On the plus side, however, Gray retains a relatively strong pharmacy franchise, a recently installed warehouse management information system for improved inventory control, new pharmacy computer systems in most stores and a strong presence in key markets like Washington, D.C., and Cleveland.

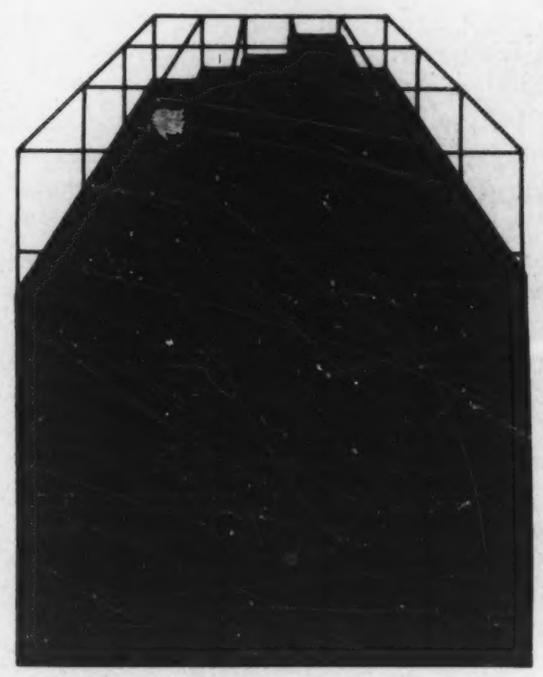
Gray is also showing the benefits of its ongoing store remodeling program, under which the majority of its stores have been spruced up in the past four years. That process has been tied to new advertising themes and new merchandising and shelf management efforts designed to enhance the image of Gray and Drug Fair stores as "convenient, service-oriented and price-competitive stores to shop for basic drug store merchandise," in the words of Sherwin-Williams' annual report.

Gray Drug Fair store count



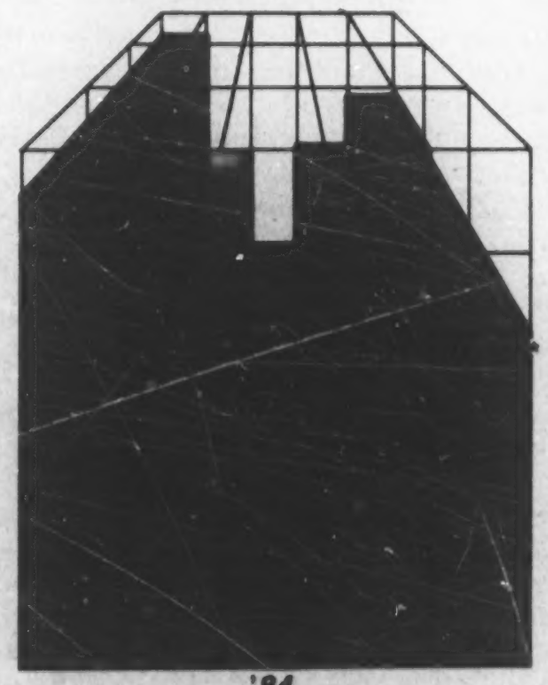
Source: Sherwin-Williams reports

Gray Drug Fair sales slide
(in millions of dollars)

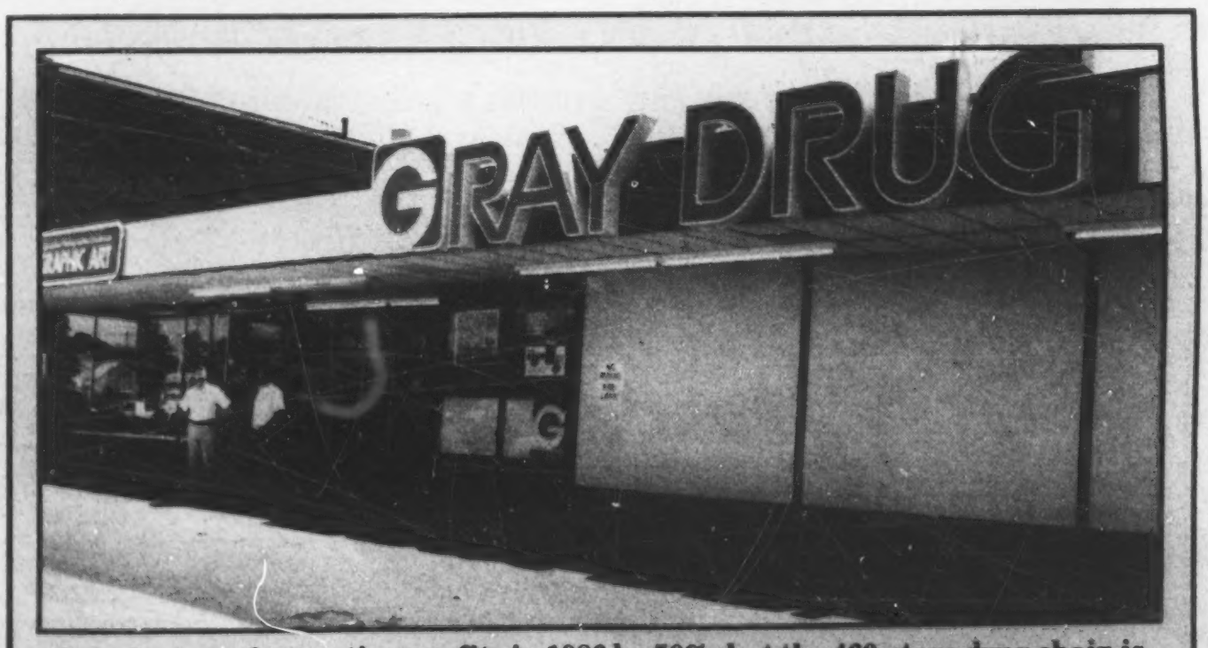


*Estimate
Fiscal year ended Dec. 31, 1986
Source: Sherwin-Williams reports

Gray Drug Fair operating profits
(in thousands of dollars)



*Estimate
Fiscal year ended Dec. 31, 1986
Source: Sherwin-Williams reports



Gray improved operating profits in 1986 by 50%, but the 460-store drug chain is being divested by its parent anyway. The gains raised its marketability.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Pay 'n Save sets about putting house in order

SEATTLE — Pay 'n Save staged a mini-turnaround in the first quarter of the new fiscal year.

Following a disastrous 1986, when Pay 'n Save, one of the Northwest's dominant drug store retailers, posted a loss of $49 million, any bottom-line improvement would have been welcome.

And indeed, Pay 'n Save barely inched its way into the black, with $279,000 in first-quarter net earnings, or a mere 1¢ a share, on sales of $199.6 million.

On an operating income basis, however, the chain did much better. Its operating profit was $8.4 million. But that was almost wiped out by interest expenses of $8.1 million.

In last year's first quarter, Pay 'n Save registered a loss of $1.9 million, or 14¢ a share, on sales of $142.4 million. The company pointed out, however, that the results of the two quarters were not comparable, since the most recent period included sales and earnings from Bi-Mart, which wasn't acquired until the middle of last year. Pay 'n Save used capital obtained from a public stock and bond offering to acquire the 33-store membership discount chain for $84 million.

Comparable-store sales off

On a down note, comparable-store sales, including those recorded by Bi-Mart, were off 4% for the quarter. But Gerald Nathanson, vice chairman and ceo, said that the sales slippage was more than offset by the chain's gross margin improvement.

Boosting margins has been a key strand in Pay 'n Save's strategy since Bill Zimmerman, the Pic 'n Save founder and former chief strategist, was brought in as chairman and equity partner by Pay 'n Save's principal owners, Julius and Eddie Trump.

Zimmerman's scheme was to transplant the buying strategies that had worked so well for him in California to the Pacific Northwest.

What Zimmerman had done at Pic 'n Save was to build a network of sources for merchandise closeouts, overruns and imports. The cost of goods was so low that even after pricing them well below other retailers, they still generated margins of 40% and better.

Strategy backfires

But the strategy backfired at Pay 'n Save, whose customers were used to a certain panache from their favorite drug store chain. They resented the cheap goods that were brought in and displayed on a series of promotional tables located in a large space carved out of the "heart of the store." Complaints poured in by the hundreds.

Nathanson's appearance on the scene in October as the new vice chairman and ceo (following the departure of Mac Allen Culver) signaled that the company had given up on trying to duplicate Zimmerman's experience with Pic 'n Save.

Nathanson's mission was to build a new executive team; take the best of Zimmerman's strategies and graft them onto Pay 'n Save's traditional strengths in pharmacy, H&BA and general merchandise; improve operations and especially the limping distribution system; polish up both the look of the stores and the morale of employees; and finally, prepare for measured growth in the company's strongest markets.

The whole job seemed straight out of "Mission Impossible." But it appeared made to order for Nathanson, the former McCrory exec who's an agreeable blend of "can-do" optimism and Oriental market salesmanship.

Assembles 'own team'

One of his first jobs was to put together his own team, which he has done. It's a mixture of Pay 'n Save holdovers and retailing veterans from other companies. The emphasis is on merchants. Nathanson wanted a team that would be able to put the stores' product mix under a microscope, and, item by item, evaluate the productivity of everything from private-label to checkstand merchandise.

There were other, even more radical changes in the period following Nathanson's appointment as chief executive.

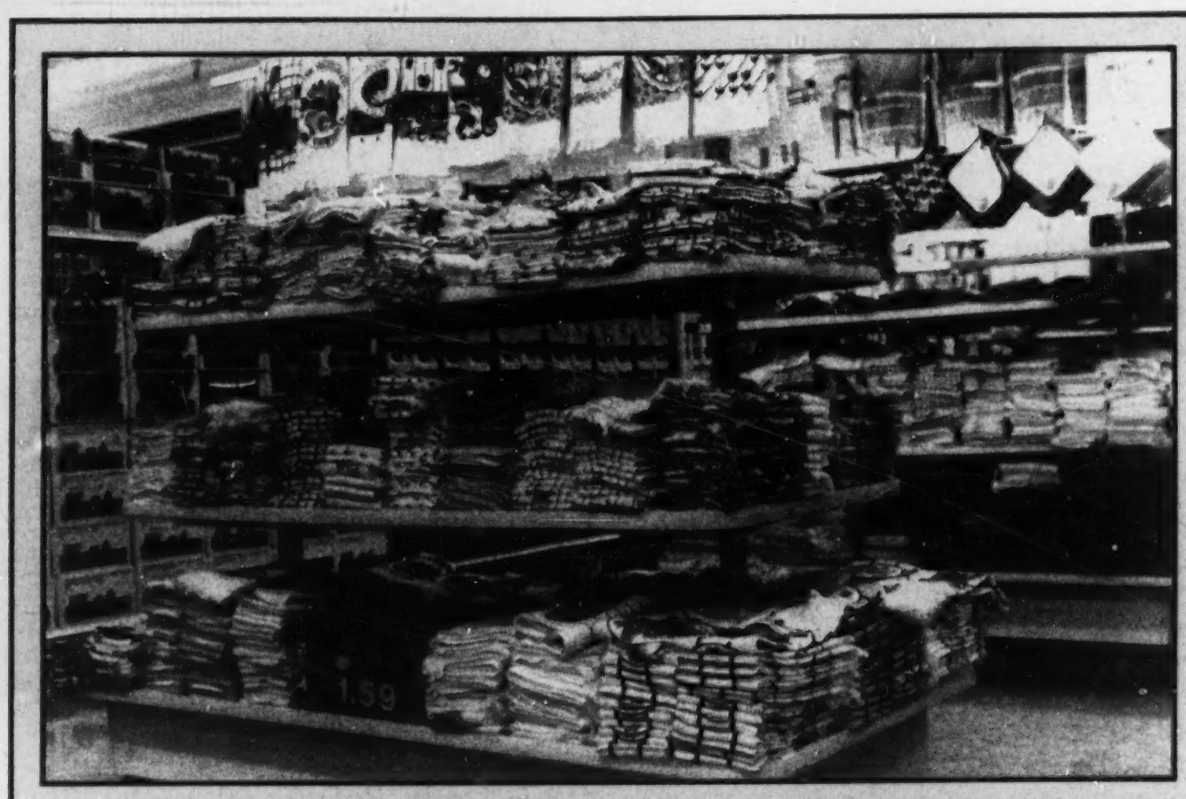
Most important, Pay 'n Save admitted it had made the most egregious error any retailer can make: It seriously misjudged its customers' tastes.

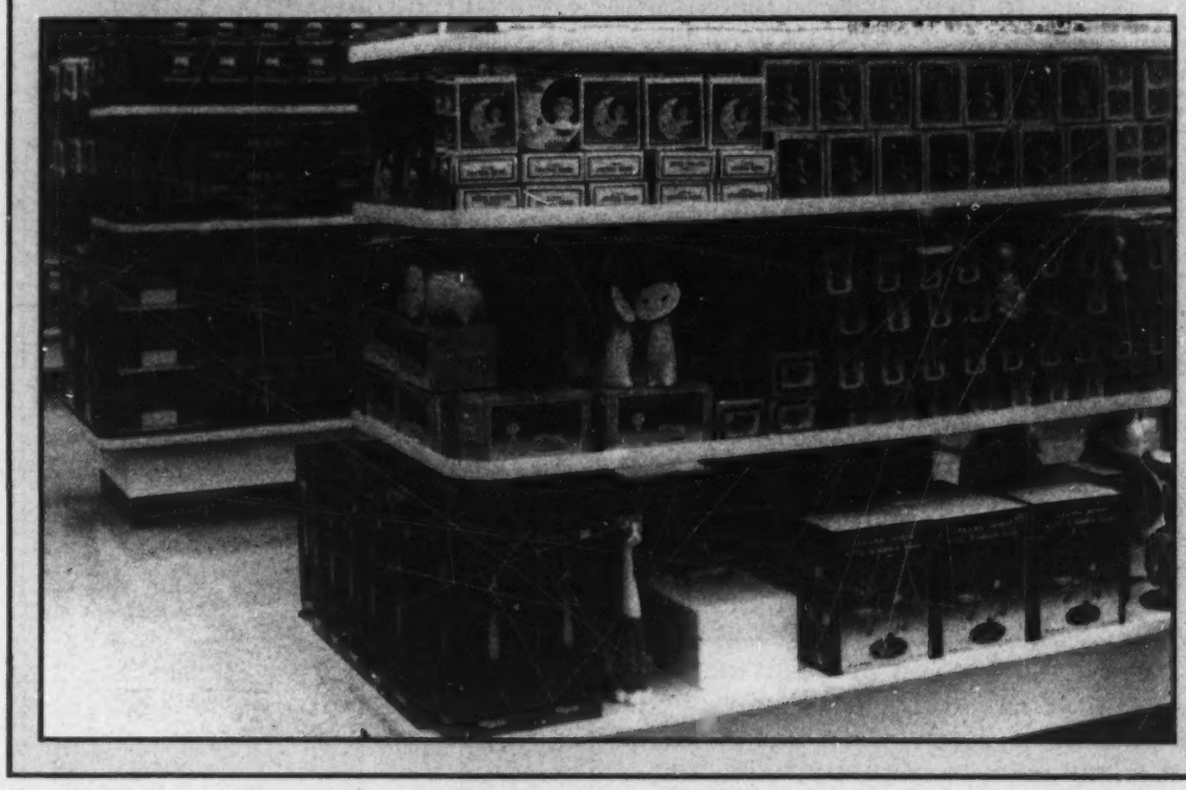
The public mea culpa was followed by complete revamping of the product mix. The low-end junk was taken out (400,000 plastic key chains were given away at the checkstands).

Zimmerman's central strategy remained, but the emphasis was shifted to quality, as well as value.

Fewer promo items

The "heart of store" layout, with its squadron of promotional tables dominating the central core of the selling area, was dropped. In its place, the chain brought back the more traditional front-to-back drug store look.





Pay 'n Save threw out much of the low-end Zimmerman imported and closeout merchandise after customers complained about "junk" being offered in their stores. The chain retained, however, imported domestics (above) as well as other, more upscale promotional items like these figurines shown below. Pay 'n Save uses promotional tables in its new race track format to highlight these high-margin goods.

A much smaller number of promotional tables were positioned on a 15-ft.-wide inner race track. It was termed a race track format, but in fact it seemed more like a throwback to the old Pay 'n Save layout.

Nathanson put a high priority on shaping up the chain's distribution system (or *non*distribution system as it seemed in the chaotic summer and fall months last year). The chain avoided an absolute debacle during the Christmas selling season by forcing merchandise into the stores and scarcely keeping track of product movement and inventory control.

By the end of the year, Nathanson wants to begin construction on a new addition to the chain's Auburn, Wash., distribution center and end the reliance on leased facilities.

An increase in distribution center capacity will also allow the company to raise the percentage of goods purchased directly from manufacturers and thereby lower acquisitions costs.

New plans

Nathanson has other plans for the chain, including:

- Getting into mail-order pharmacy, as other chains are beginning to do. At the same time, he wants to improve in-store pharmacy sales, which currently run about $800,000 a store. He plans to do this by using a heavier TV ad schedule to enhance the chain's image as a prescription center.
- Bolstering the chain's private-label program, not necessarily by increasing the number of sku's—now about 400—but by emphasizing quality comparable to the brands.
- Testing new retail categories, including video movie rentals, which are being tried in one Washington store.
- Closing unproductive stores in order to redeploy assets. Six stores were closed after the most recent quarter—three in Montana, two in Wyoming and one in Alaska. Bi-Mart will have a high priority in this year's growth plans, with four stores slated. At the close of the quarter, there were 107 Pay 'n Save stores and 33 Bi-Marts in operation.

	Pay 'n Save (Pic 'n Save and Bi-Mart)				(1)	
	Before Oregon Shoreline acquisition			After SSC acquisition	The company consolidated*	The company consolidated**
Pay 'n Save	$416,021	$467,231	$326,593	$523,012	$489,724	$489,724
Bi-Mart	186,958	207,290	148,676	232,313	234,453	65,374
Combined	—	—	—	—	724,177	555,098
	FY ended 1/29/83	FY ended 1/28/84	1/29/84 to 10/12/84	FY ended 11/2/85	FY ended 11/1/86	FY ended 11/1/86

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Fay's strong prescription traffic in rural units such as this Cicero, N.Y., store proved a stabilizing factor, when sales of general merchandise were slow in 1986.

Fay's creates a recessed cosmetics boutique environment near the entrance of Cicero, N.Y., store.

Fay's makes '87 fiscal rebound by cutting costs

LIVERPOOL, N.Y. — Fay's used marketing strategies and cost cutting moves to restore its profit momentum in the 1987 fiscal year, which ended Jan. 31.

After starting the year with its first quarterly loss since 1974—a $1.1 million earnings shortfall—Fay's built profits by widening its margins to historical levels and slowing the rate of new store growth. It ended the year with net earnings of $4.09 million, up 47% from the 12 months of fiscal 1986. Sales increased about 2%, to $452 million.

Fiscal 1986 had seen earnings reduced sharply because of squeezed profit margins in upstate New York markets, lower consumer demand for general merchandise and the costs stemming from an aggressive store opening schedule.

Earnings before taxes for 1987 gave a better indication of the dramatic profit growth the chain was able to achieve in the year's last nine months: They were $6.8 million for the year, 150% higher than 1986's $2.7 million.

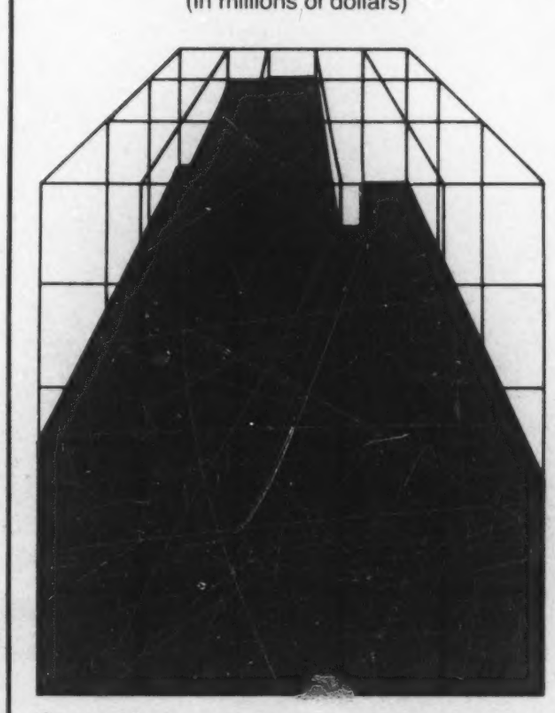
Management departures

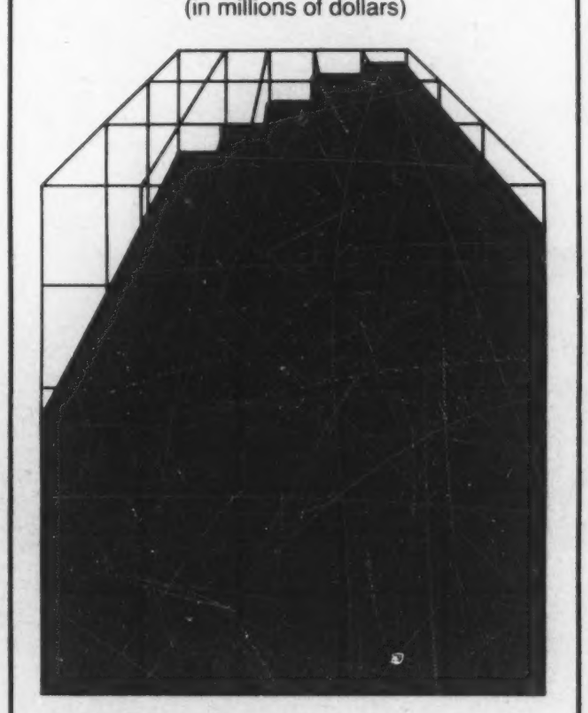
While the fiscal rebound was under way, Fay's management structure was shaken in January by the departure of three top officers, including president Daniel Herrmann, who resigned after a 26-year career with the chain. Also tendering resignations were cfo Peter Rhodes and Bruce Berg, vp-store operations.

Chairman Henry Panasci Jr. said that he would take on the president's duties for the near future. Sources said the chain should be naming a new cfo by the May annual meeting.

Fay's gross margin for the year was 27.84%, compared with 23.7% in 1986, when the chain deepened price cuts on advertised specials and lowered everyday prices on more than 8,000 items to compete in its key markets. The discounting posture was most prominent in Rochester, N.Y., where Fay's clashed with Wegman's. The supermarket chain controls about 60% of the food market, with its super combo format (with pharmacy) and deep discounted H&BA.

Fay's decided during the year to hike its prices back up to their traditional notches. "We declared victory and went home," noted a Fay's source.





Fay's achieves 20% of its volume through sales of aggressively promoted general merchandise, such as these garden hoses in its Cicero, N.Y., super drug store.

Cut promo merchandise

To help raise the overall gross margin, Fay's cut back on the volume of promotional merchandise—in particular, high-cube general merchandise. In the third quarter, Panasci reported that the volume done on ad was 14%, against 19% in the comparable period a year earlier. The gross margin on advertised items was boosted to 10.5% in the quarter, from the 6.5% of the previous year's three months.

Fay's prescription business continued to post strong gains. The chain filled 8.3 million prescriptions in the 1987 fiscal year, compared with 7.47 million in 1986. Fay's said stores were averaging 1,100 scripts filled per week.

Before profits stabilized, Fay's had been mired in a five-quarter earnings slump that was caused in large part by its rapid store growth program of recent years. Fay's has rolled out about 20 stores a year, increasing unit count by about 20% annually. The heavy growth created a large stock of stores too new to be profitable.

In the year's first quarter, 41% of Fay's 159 stores (including Paper Cutter stationery stores and Wheels auto parts units) were under three years old. The drug stores take three years to break even.

"However," Panasci told shareholders at the May annual meeting, "these new units, when compared to our older, mature stores, have historically shown the most rapid increase in sales growth after reaching profitability.

"It is also sales growth of these incremental units which will have the greatest impact in lowering expenditures per gross profit dollar in respect to advertising, supervision and distribution," Panasci added.

Cost cutting measures

Fay's launched such cost cutting measures as freezes on management hiring and wages. Inventory was reduced $100,000 per store, netting a cost savings of $13 million chainwide.

During the year, Fay's opened a 300,000-sq.-ft. addition to its distribution center here. The addition more than doubles DC footage, helps eliminate warehouse rental costs incurred at other sites and improves handling of the promotional merchandise on which Fay's relies to carve a distinctive identity against drug competitors.

Fay's planned to cut back its capital spending and unit growth. Capital outlays were targeted at $10 million to $15 million for the next few years, compared with the $20 million-plus of recent years.

In fiscal 1986, it had opened 20 super drug stores, six Wheels and three Paper Cutters. In 1987 it opened 11 drug stores, ending the year with 155 drug units. Fay's added two Wheels, making 13, and its fifth Paper Cutter.

Plans for '88

Plans for 1988 include a major push in the Paper Cutter stationery stores, which offer stationery and home office supplies to small offices and businesses at 30% to 40% below the cost the customers would pay at traditional office supply houses. Fay's is opening six Paper Cutters in the year and will add three Wheels.

Ten drug stores will be added in 1988 in existing markets in northeastern Pennsylvania, western Massachusetts and the Hudson Valley in New York. Fay's goal is 270 stores by 1990, a chain source said.

Going into the new year with margins restored, Fay's plans to hold margins and concentrate on building sales back to historic levels.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Perry cuts unit growth in effort to lift profits

PONTIAC, Mich. — Fiscal 1986 was a tough year for Perry Drug Stores—more so in light of the company's stellar performance and blistering expansion pace in recent years.

Net earnings fell 39% last year, in part because the cost of expansion and acquisitions finally caught up with Perry's earnings momentum in the form of high interest expenses. Higher costs for insurance and employee benefits, the loss of investment tax credits under the new tax reform act and competitive conditions in its auto parts division were also to blame.

Sales for Perry's three operating divisions totaled $648 million last year, rising 24%, but net income slid to $5.9 million from $9.6 million the previous year. Much of the additional revenue came from the 12 drug stores and 50 auto parts stores Perry opened or acquired during the year, but same-store sales, aided by a rejuvenated merchandise mix, also rose a healthy 7%.

Sales in Perry's drug store division rose 27%, to $487 million. Automotives sales last year stood at $145 million, while revenues in the health care arm, including ComfortCare home-health-care centers and its surgical-supply business, reached $16 million.

The disappointing earnings trend continued to show the impact of heavy costs and competitive pressures in the first quarter of fiscal 1987. Although sales continued their upward pace, net income shrank to $1.3 million, compared with $3.7 million the previous year.

Response to problem

Perry has responded to the problem in a variety of ways, some of them basic to its way of doing business. It has scaled back expansion plans for 1987, with another 12 drug stores and 40-odd auto parts outlets now on the drawing boards.

Those numbers, while considerable, are a far cry from Perry's aggressively expansive approach two years ago and reflect a continuing cutback in new-store outlays. After expanding at the rate of about 40% in new-store growth in 1985, the chain's expansion rate shrank to 17% last year. Its growth plans this year call for about a 12% addition to its store base.

Perry has also scaled back on plans for a birthday bash this year to celebrate and promote its 30th year in business and has begun moves to cut administrative expenses and costly employee health and liability plans. Some of its considerable debt load has also been restructured to prop up the sagging bottom line.

'Frugal fiscal policy'

"For 1987, we have initiated a very frugal fiscal policy, instituting stringent budget controls in many areas," noted chairman and president Jack Robinson. "It will be a year in which we emphasize that, 'We will do it better but for less.'"

Administrative costs should also be reduced when Perry consolidates its corporate operations—now spread over five locations miles apart—into a single new headquarters center in downtown Pontiac.

Perhaps the most significant shift the company is making, however, is in the area of marketing and merchandising. Last year, the chain began refocusing its merchandise mix by emphasizing a more basic, drug store-oriented approach. OTC drugs, H&BAs and other core categories were strengthened, and some general merchandise categories—including marine supplies, sporting goods, live pets and plumbing supplies—were scrapped.

The chain's drug store division also began to distance itself from its old association with auto supplies and home center products. Perry is no longer building drug/auto/home center stores and in some cases has begun to put up walls in some of the 54 such outlets to make them side-by-side stores.

"Some of the merchandise we were selling in our stores had no business being in a drug store," noted one Perry employee. "I'm talking about outboard motors, boats and other big-ticket items that took up a lot of space and turned a few times a year, at best. Getting out ot those areas was the right move for us."

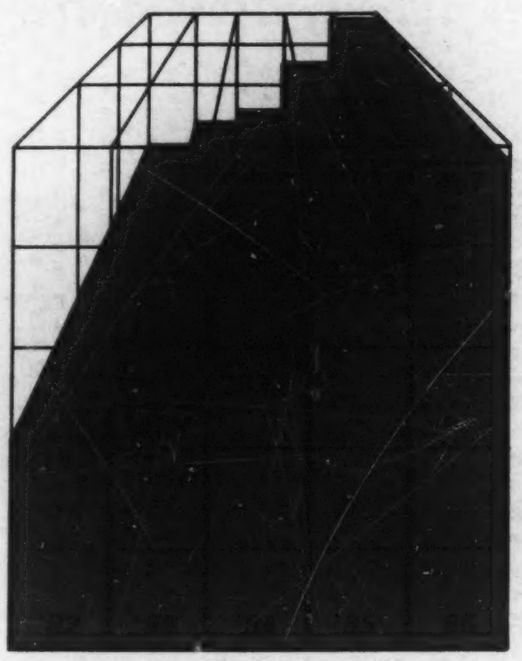
The shift in focus has been an outgrowth of a more deliberate, market-oriented approach undertaken by the drug chain over the past year-and-a-half. Renewal of the drug store basics, including its health care and convenience image—and greater attention to customer service—followed an extensive customer and market survey conducted on Perry's behalf last year.

In December, Perry took another major step in that direction by hiring entrepreneur and former Osco Drug veteran Betsy Burton as vp-marketing. Burton is responsible for coordinating the efforts of Perry's merchandising and advertising teams to achieve a more unified, market-oriented approach. She was also instrumental in the reorganization of the merchandising department into buyers and inventory specialists earlier this year.

December also saw another big personnel change, when coo Don Fox, a 27-year company veteran, resigned to pursue other interests.

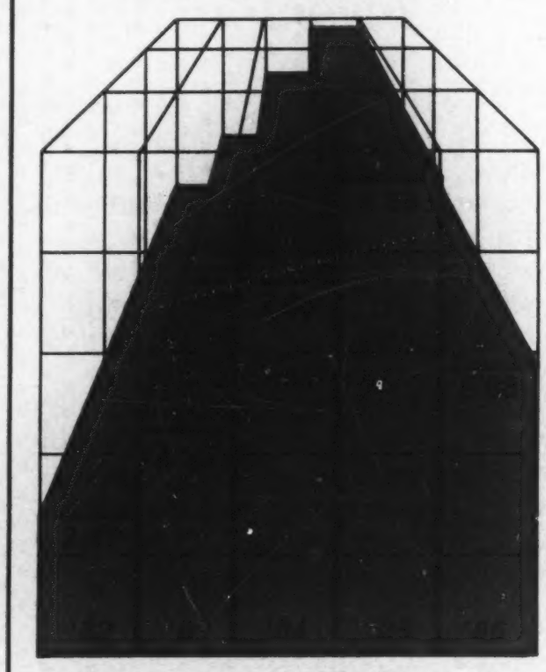
With profitability now the prime focus of its attention, Perry has no plans to expand into new business and no current plans to move outside its eight-state market area in the Midwest and Ohio Valley. "We will remain in the three [businesses] we know best—drug stores, auto parts and health care," said Robinson.

Perry sales surge
(in millions of dollars)



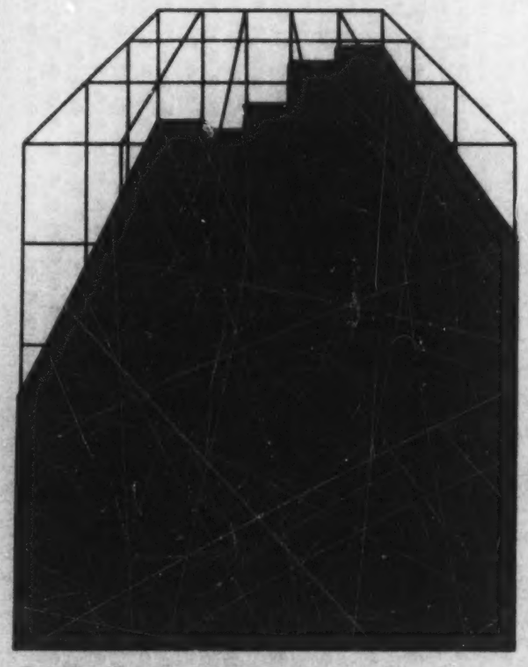
Source: Company reports
Fiscal year ended Oct. 31, 1986

Perry net earnings drop
(in millions of dollars)



Source: Company reports
Fiscal year ended Oct. 31, 1986

Perry store count



Source: Company reports

At A. L. Price, shoppers are exposed to high-impulse alcoholic beverages several times during a visit because the display runs perpendicular to the store's gondolas.

Fragrances are self-service and eye-level at Perry, which sets them near personal care appliances to convey a more complete grooming statement to shoppers.

Higher profits emerge at Genovese

Inventory and cost controls, new stores will be '87 focus

MELVILLE, N.Y. — Genovese Drug Stores, with its comeback year complete, is focusing on tighter inventory controls, cost containment and scanning tests. It also hopes to raise shares in existing metro and suburban New York markets, thanks to a slightly more aggressive new store, remodeling and expansion program.

While earnings didn't rebound fully to the record level of two years ago, the fiscal year ended Jan. 31 halted a precipitous slide in net income that might have made the company vulnerable to a hostile takeover attempt if it continued.

That's why Genovese, while taking initial steps to right its fiscal performance in early 1986, also adopted a takeover defense plan at its annual meeting last June. Treasurer Jerry Stengel said then that "Genovese won't be taken against its will. We don't want greenmail or a takeover struggle. We want to run the business smoothly."

Steady growth

And that's exactly what happened in this latest fiscal year, despite the departure of its president, Pat Edwards. Chairman Leonard Genovese assumed the additional role, which he held before.

Steady sales and profits growth each quarter produced a turnaround 12 months in which sales grew 16.1% in a noninflationary environment, and operating earnings tripled. Same-store sales rose in the double digits.

Sales for the year grew to $270.8 million from $233.2 million. Operating profits soared to $6 million from $2 million in the prior year.

Net income was $2 million, compared with $2.9 million last year, but last year's net included $2.8 million from the sale of eight Connecticut stores and land to Fay's.

Distribution gains were key to performance improvements and will play a primary role next year as well. Tighter operations at the 20-month-old 155,000-sq.-ft. distribution center (DC) enabled Genovese to raise its nonstore-door share of goods from 40% to 60% currently.

DC plans

The chain will most likely exercise its option in March 1988 to purchase the DC it now leases plus an adjoining 100,000-sq.-ft. facility that is linked by a two-loop receiving and staging area, said vp-marketing Donald Gross.

The extra space and better layout will allow for greater buying and handling efficiencies and enable Genovese to handle as much as 75% of merchandise through the DCs eventually. This will help to further escalate turns and improve cash flow.

The impact of the DC has been felt in all departments, but especially in health and beauty aids, which Genovese stresses second only to pharmacy.

The merchandising focus at Genovese continues to be brand names in a discount environment. Still, the 83-store chain is looking to bring private label up to a 2%-2.5% share of sales, "but no more than that," said Gross. "We're changing our reporting to include private-label vitamins in that figure, which brings us to just about where we want to be."

The private-label effort was revamped by early 1986 to raise the assortment to 400 sku's and create a consistent packaging look for all store brand items regardless of category.

High store brand margins help Genovese to cope with its aggressive pricing policy against Rockbottom, Pathmark and Austin Drugs.

Circle of Value

The most visible part of that pricing strategy is the Genovese Circle of Value year-round program. It involves the promotion of 250 items, largely H&BA and cosmetics, for three to four weeks, then a shift to another 250 items for the following three- to four-week period, with some of the same sku's staying at marked-down prices.

Judging by the chain's vastly improved operating profitability this past fiscal year, Genovese has been able to maintain margins while growing sales in many core drug store departments. Pharmacy grew 24%, H&BA and cosmetics were "very strong" and candy, greeting cards and stationery were the next strongest gainers, said Gross.

The emphasis on these core categories will be carried through all stores, even those being developed in smaller formats, Gross told *Drug Store News*.

Genovese, which added just four stores in the last fiscal year, opened another four last month and plans a total of six to eight in this current fiscal year.

New directions

Stores opened in March mark two new directions for the chain. One, in Albertson, N.Y., is the first to be equipped with scanning. Also, that store and another in Williston Park are just 1½ miles apart, a distance that shaves both trading areas pretty thin.

"We're backfilling our neighborhoods" and not worrying about closeness as much as in the past, said Gross, noting that good sites are getting very hard to find.

"We do heavy demographic evaluations," he added, noting that suburban trading areas might be a mile to a mile-and-a-quarter, but just one-half to three-quarters of a mile in the boroughs of New York City.

Genovese has gained a local reputation for converting roller rinks, bowling alleys and bingo parlors in order to open in densely populated Brooklyn, the site of one of last month's openings and an area where independents are still strong. "There's nothing but people there, and it's not as expensive as Manhattan," said one chain executive.

Besides new stores, a concurrent emphasis on store remodels and expansions is meant to generate fast payback. Genovese plans 8-10 refurbishings this year, up from last year's pace.

And one of the new stores, in Williston Park, will be slated for similar treatment in two years, when adjacent space becomes available. For now, the site is less than 7,000 sq. ft. of selling space, considerably less than the chainwide average of 10,000 to 12,000 sq. ft. But Genovese plans to add to it, while limiting its seasonal and automotive space for now.

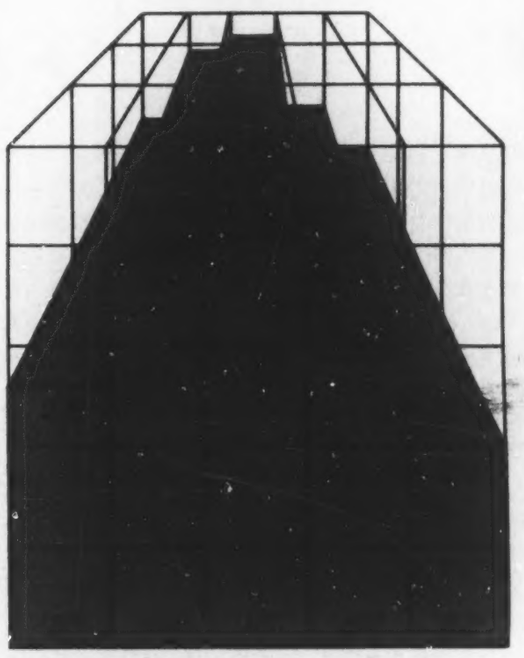
Downsized format ready

Genovese also has a downsized, upscale store format waiting in the wings for the right location. The company meant to unveil it this fall, but problems with a landlord prevented that store opening. "The idea is definitely not dead," said Gross.

Another March opening, in Mattituck, Long Island, is the chain's first appearance in this farming and shore community in Suffolk County, where summer seasonals should play a big role. The only other lease signed is for Lake Ronkonkoma in late summer.

Clearly, Genovese is concentrating on its home turf.

Genovese earnings turnaround
(in millions of dollars)



Source: Company reports
[a]FY ended Jan. 30, 1987
[b]Includes $2.8 million on the sale of stores and land

Genovese tests 1st POS scanning

The first POS installation at Genovese was more than a year in coming. Chain officials had spoken about it since early 1986, but had spent the past year fortifying distribution and merchandising before deciding to invest in the high-tech installations.

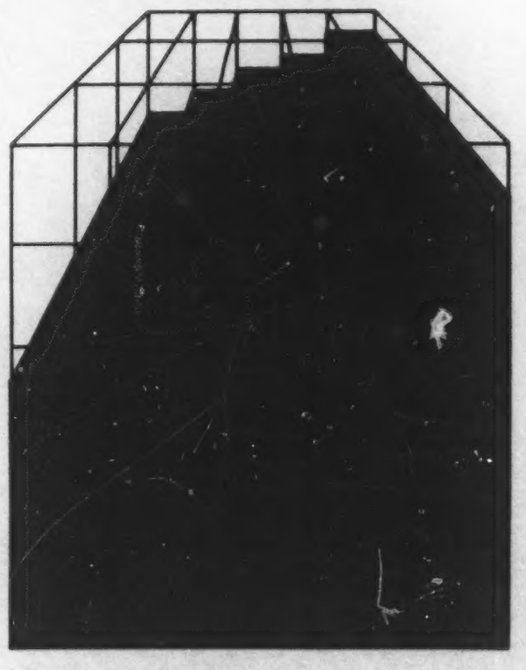
The Albertson, Long Island, store opened with a scanning system last month that covers between 60%-70% of the sku's it carries, said vp-marketing Don Gross. All checklanes are equipped in this first test store, but registers can also be hand-operated in case of problems.

Genovese plans to experiment with slot and hand-held scanners as it installs equipment in a second store this summer and possibly two more stores by the end of 1987.

"If the program goes well, we'll roll out rapidly next year and set a goal to equip half the chain by 1990," Gross said. "There's no question we have to go this way," he added, noting that the ability to track performance of promotional items is one of their main criteria. He declined to say how much Genovese will invest in scanning, or how much of the capital expenditures budget it represents.

Genovese is experimenting with in-store changes, including a service fragrance/cosmetics bar, trial-size displays near a revamped checkstand and a scanning test.

Genovese sales continue climb
(in millions of dollars)



Source: Company reports
*FY ended Jan. 30, 1987

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Dart recasts image, adds stores, rolls out POS

LANDOVER, Md. — Dart Drug Stores chairman Stephen Hansbrough had a big decision to make in the months following his chain's $160 million debenture float in mid-'86.

Should he chase sales and sacrifice margins in this highly promotional market, so Dart could generate extra cash to cover debt payments?

Or should he reposition Dart as a stronger competitor for the long haul?

The answer, and some of its short-term consequences, became clear in recent months when Hansbrough initiated a major recast of 81-store Dart. The campaign is meant to alter negative consumer perceptions of the chain which linger from pre-1984 leveraged buyout days.

The immediate consequence: a quality downgrade of its 12.7% senior debentures from B2 to Caa, the lower end of the speculative range, by Moody's Investors Service.

The bond sale was meant to enhance cash flow by $48 million between 1986 and 1990 and let Dart retire more than $100 million or remaining LBO debt without repaying principal until 1994.

Securing the future

"We're securing our future, not mortgaging it," Hansbrough said at the time.

Indeed, Hansbrough told *Drug Store News* recently he'd match Dart's bill-paying record against anyone's and has met all its interest payments to date. Still, the bonds have slipped by about 50% in value since the original offer.

To put the downgrade in perspective, the Standard & Poor's rating service said that, in 1986, it downgraded 364 corporate issues and upgraded 149. There has been a general loss in corporate credit quality the past few years.

That does nothing to diminish Dart's situation, however. The chain's future swings on Hansbrough's choice to build long-term strength.

"We expect the second half of the year to bear out the correctness of our plan," he said.

Advertising blitz

That plan includes an intensive media advertising blitz, more involvement by headquarters executives at store level, tighter cost controls and inventory management and more responsiveness to customers.

Hansbrough's executive team has placed staffers from all levels on 21 separate task forces to find solutions for operational and image problems.

That multifaceted program has apparently begun to take hold. January sales rose 5.5% and same-store sales, 1.5%. February was brisk too, said Hansbrough, who at presstime was awaiting results from recent surveys about the image campaign that began in November.

From mid-November through the end of January, Dart aired 30-second institutional spots 20 times a day, seven days a week over five television stations covering the D.C. market. Dart also ran full-page image ads in the *Washington Post*.

Dart has also moved to clean stores, speed checkouts, simplify traffic patterns and improve out-of-stock and return policies.

Point-of-sale installations, which could improve inventory management and central pricing strategies measurably, are moving "ahead of schedule," Hansbrough said. About a dozen stores are equipped, either fully or in modified fashion that gives Dart electronic price look-up on advertised items.

He expects to equip all stores, at least in the modified style, by the summer.

Distribution efficiencies

POS is particularly important to Dart, which advertises 500 items each week and has been vulnerable to pricing errors and lost margins because of the high number of promotional sku's.

And ever since Dart Drug was freed from providing warehouse services to Trak Auto and Crown Books a year ago October, the drug chain has been able to use its 600,000-sq.-ft. DC for its own stores. That's led to greater buying and distribution efficiencies.

The DC can accommodate 40 to 50 more stores and is already being used to warehouse Rx items and improve in-stock positions. Dart also price-marks 85% of merchandise at the DC, speeding flow to store shelves and eliminating the need for backroom space, of which there is little in the smaller stores.

The small store format has rapidly become a key part of Dart's expansion program for several reasons. They enable Dart to penetrate downtown Washington markets that wouldn't be able to support larger stores. Their unusually upscale design approach makes Dart a more acceptable tenant to business center landlords. They expose lunchtime shoppers to the "new" Dart, so they might consider giving the Darts near where they live a second chance. They're highly productive, generating more than $500 sales per square foot, and less expensive to open and operate profitably.

The 4,000- to 7,000-sq.-ft. format will make up nearly half the 30 new stores Dart expects to open by 1989, many in inner-city areas. Hansbrough plans to locate stores so Dart services weekday business center trade and lower-income neighborhoods. He wants Dart to be "the hometown chain . . . be downtown in a big way . . . to service everyone who lives and works here."

Downsized store format

Dart's first downsized store opened last summer at 20th and L Streets. It is "on target" toward meeting its $500 sales per square foot goal at the end of its first full year of operation and will eventually approach the $700 level, Hansbrough said. The store is expected to mature at 120 scripts per day. It employs a multilingual cosmetician who speaks five languages and helps service a consistent tourist trade.

It is set in gray and maroon, with glass shelving and neon and baffled lights. The store has been the chain's showpiece this past year and a signal to the marketplace that Dart can produce stores capable of reversing lingering negative images of the chain.

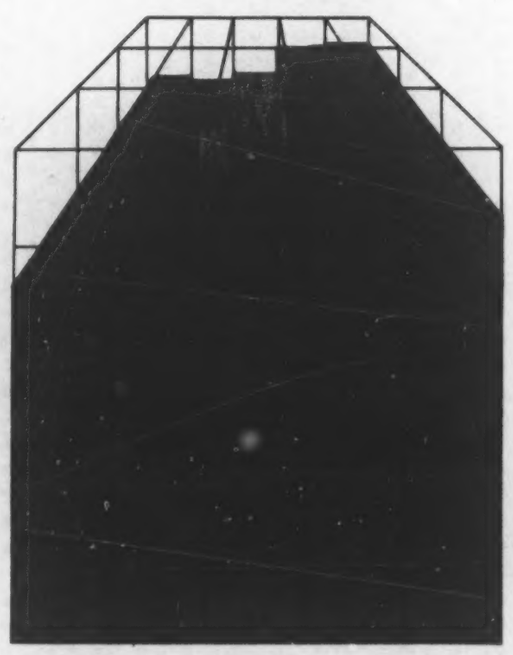
While Dart scrambles to improve on many fronts, its fiscal performance has wavered. Sales in the year ended July 31, 1986, rose slightly to $261.9 million from $259 million in the prior year. The net loss widened, however, to $15.6 million, compared to $2.6 million in the prior year.

A $5.9 million prepayment bill to retire its original LBO debt accounted for much of the difference, as did an additional $2.7 million in insurance costs and a half million dollar climb in advertising expenses, said Darryl Bryant, Dart senior vp and cfo.

In the quarter ended Oct. 31, sales dipped to $60.9 million from $63.1 million in the same quarter a year earlier, despite additional stores. The net loss widened from $451,000 in the same year-ago period to $4.9 million. That's mostly due to $2 million additional interest expense, lower gross profits because of lower sales and increased salaries to staff newly opened stores, Bryant said.

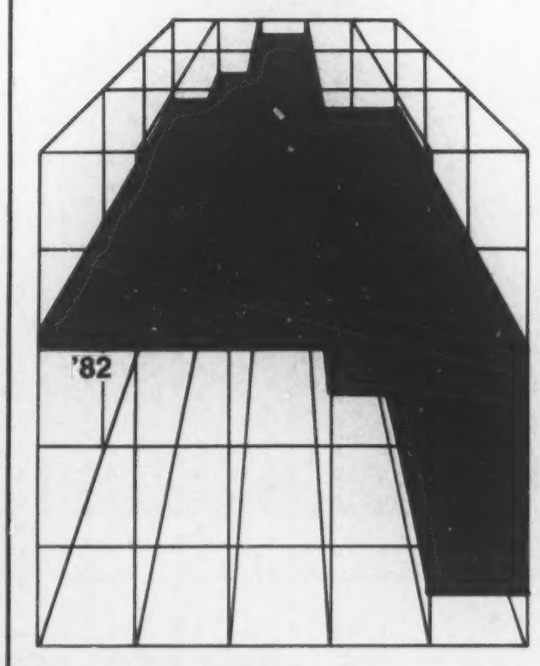
"People refinanced homes, bought cars and had less disposable income," Hansbrough cited as reasons for the sales dip in the quarter that preceded its aggressive image campaign.

Dart sales edge up
(in millions of dollars)



FY ended July 31
Figures reflect changes in fiscal year
Source: Company filings

Dart net results
(in millions of dollars)



FY ended July 31
Figures reflect changes in fiscal years
Source: Company filings

I'm shaking things up at Dart Drug.

Dart Drug is now employee-owned. It's no longer owned by the Haft family. And we have big changes to make. We're still going to give you great prices and savings. But we're going to give you something extra. . . great service with a smile.

Faster checkout.
I hate to wait in line. I know you hate to wait in line. So we're putting in a new IBM computerized checkout system. Instead of a lot of shuffling through our weekly insert, the system will instantly identify all the sale prices. No errors, no long lines, no long waits. This system will be in seven of our stores by Thanksgiving and we plan to have them in every store by summer.
I've also established a new checkout policy. When the line gets longer than three people, we'll use all available store personnel to speed you on your way. You shouldn't have to wait to get a bargain.

Easier entrance.
In most of our stores, you walk through our seasonal aisle to get to the rest of the store. But if you only want a bottle of aspirin for your headache, you may not appreciate tree lights, chocolate bunnies or garden hoses.
So we've begun to add "shortcut" openings. To give you the choice. Browse the seasonal goods or step through the shortcut and check out the rest of the bargains.

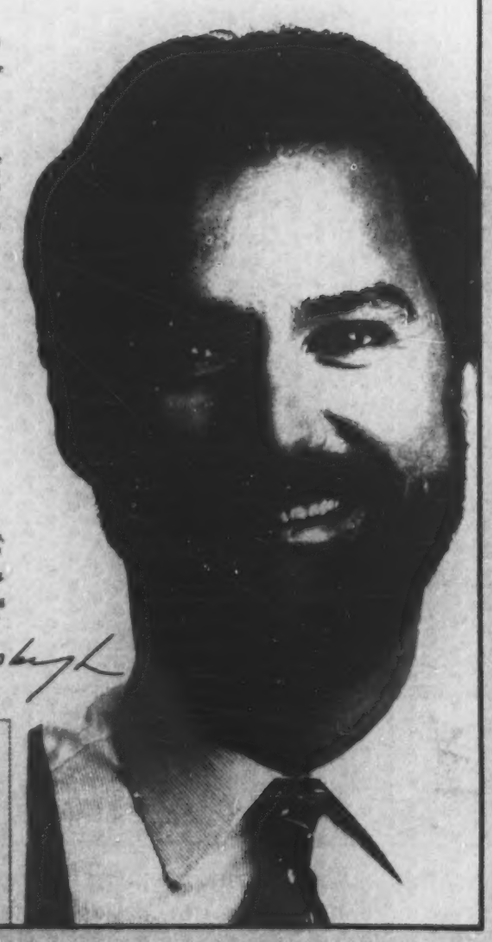
Cleaner stores.
Dart stores are going to look better, too. Floors will be swept at least twice a day, and buffed and waxed regularly. Stock will be kept fresh and we're going to reduce clutter in the aisles.

New out-of-stock and return policies.
Whenever a regularly stocked advertised sale item is temporarily out of stock, you no longer have to take a raincheck. Your store manager will establish a comparable substitute item and offer you the same great discount. If you'd rather have a raincheck, that's fine. The point is, the new Dart Drug gives you a choice.
You also have up to 14 full days to bring back any unsatisfactory merchandise for exchange or refund with your receipt. And for any gifts bought between now and Christmas, you have until January 10th for returns.

A new attitude.
When you shop at Dart, I want you to know that we appreciate it. So expect a lot more courtesy and attention. A pleasant smile. "Thank you," or "Have a good day." And people readily available to help you. The way I look at it, the customer is our guest.

There's more to come.
This is just for openers. Right now, we have 21 task force groups analyzing every aspect of our operation. Looking to see what our problems are. Looking to see how we can correct them. Looking for ways to make Dart the kind of store you'll enjoy shopping in. If you've got any ideas, I want to hear from you, too. Use the coupon and drop it in the box in every Dart store.
You're looking at the new, employee-owned Dart Drug. Just as fast as we can, we're changing everything but our unbeatable prices. I can personally guarantee. . . we're going to get better. Because I've got a little influence around here.

Stephen J. Hansbrough
Stephen J. Hansbrough
Chairman of the Board and Chief Executive Officer



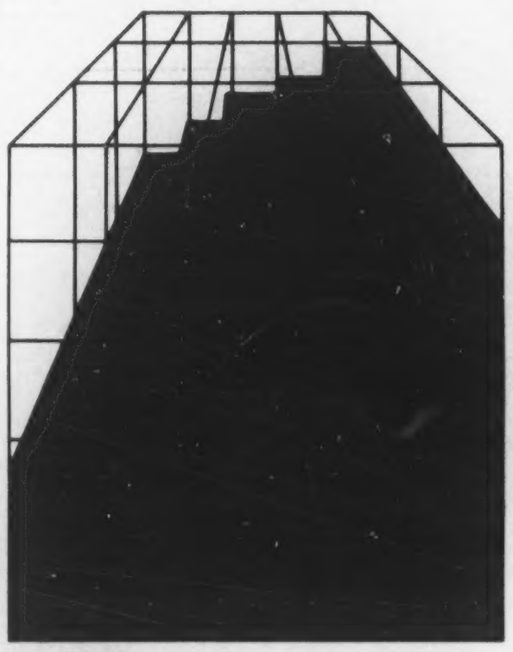
Go to it!
And while you're at it, see if you can do something about _____

Dropoff at any Dart Drug store "Speak to the Boss" box.

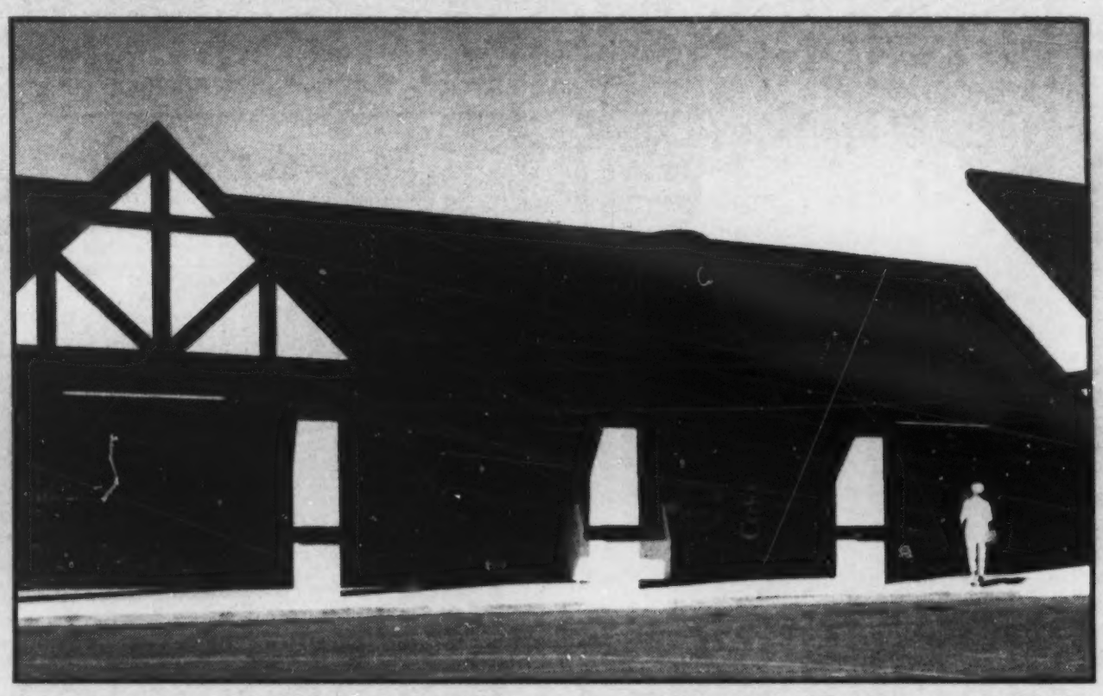
DART DRUG

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Big B sales grow 20%
(in millions of dollars)

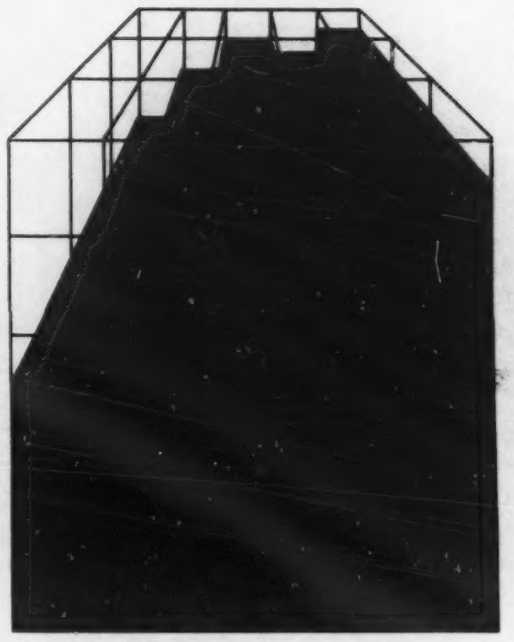


Year ended Feb. 1



This unit outside Birmingham, Ala., was one of 28 stores Big B opened in 1986 with a 20% unit growth plan that continues in 1987.

Big B profits rebound
(in millions of dollars)



Year ended Feb. 1
Source: Company reports

Big B rolls out stores to 'blanket the Southeast'

BIRMINGHAM, Ala. — Big B pursued its goal of becoming a dominant presence throughout the Southeast by expanding its drug store count 22% in 1986. In rolling out 28 drug stores in five states, the chain ended the year with a total of 153 stores.

Big B also posted a sales gain of 20% for the year, continuing the strong pace of the last five years. Sales for the year ended Feb. 1 topped out at $209.8 million, compared with fiscal 1986's $175.4 million.

The store growth was even more impressive than last year's, when Big B launched 21 new units in its aggressive drive to "blanket the Southeast" and move beyond its Alabama stronghold.

Store growth impact

Stores were launched in Tennessee, South Carolina, south Georgia and south Mississippi, as well as in Alabama.

While the strong growth took a toll on earnings early in the year, there was a rebound by year's end.

The chain launched the year with a rousing first quarter, which shook off an earnings slump in the fourth quarter caused by a move to a new distribution center. First-quarter income was up 28.4% to $1.6 million.

But profits began to slide, due to stiff store-startup costs and lower gross margins that resulted when the chain tried to slug it out on electronic hardware and back-to-school merchandise with discounting competitors such as Wal-Mart.

Customers cherry-picked heavily promoted VCR's and back-to-school notebook paper, which cut into gross profits for the quarter. The third-quarter gross margin dropped 2.6 percentage points to 26.7% from the previous year's period. The loss of the investment tax credit also dragged net income down in the period. Sales, though, were up 22% to $47 million, with same-store sales up 8%.

A more upbeat fourth quarter followed, with earnings at $1.74 million, compared with 1985's $1.15 million.

Year-end earnings were $4.47 million, up 10% from 1986's $4 million. Earnings per share for both years were 61¢, reflecting increased shares outstanding in 1987 due to a stock sale in June. There were 11% more average shares outstanding in 1987 than in 1986.

Growth plans modified

The heavy store start-up costs caused Big B to scale back its new year's growth plans somewhat in order to bolster its earnings performance in 1988. It planned to open 20-25 units, increasing units by 13%-16%, rather than the 30-unit increase it had forecast earlier.

The chain also felt there will be less pressure to capture sites in the Southeast, since both Revco and Eckerd—key rivals for locations—are moderating store rollouts in their post-leveraged-buyout operating modes.

B-Marts on track

While the chain didn't add any more of its B-Mart Food and Drug combo units, ending the year with five, it put them on a profitable track. It hired Mac Baird, a former executive with Giant Foods out of Atlanta, to turn around the units, which have suffered from Big B's inability to warehouse a high percentage of grocery merchandise. Four of the five combos reached profitability, and the fifth broke even. "They didn't find them initially to be the bonanza they had hoped they would be. They're still under close scrutiny," said one observer.

With Baird's appointment, Steve Collins, who had headed the B-Mart division, was named to the new post of regional operations director, with responsibility for all retail operations, reporting to Robert Little, vp-store operations.

The chain increased its commitment to the deep discounting business. It opened two more Drugs-For-Less deep discount units, joining the first store in Birmingham, which it had opened in November 1985. The 10,000-sq.-ft. units include pharmacies.

Big B also launched its fifth home health care center in a freestanding Dotban, Ala., store.

Central computer installed

Big B took a major step toward developing its computer system for store operations by installing a central computer at corporate headquarters. The computer will be integrated with its POS cash register units in its stores. The central unit—a large configuration of an IBM PC—will allow price updating to stores from a central point and afford buyers a means to track sales and monitor promotions.

Big B also decided to roll out the POS system—with scanners—into all of its stores. The POS system works "transparently" with Big B's pharmacy system, so files of one can easily be transferred to another. Officers at corporate headquarters will be able to get a complete picture of front-of-the-store and pharmacy performance through one report at the central computer.

Big B integrates makeup with fragrances and hair care at the entrance of its Rocky Ridge unit.

The chain puts a greeting card set directly across from cosmetics to maximize impulse buys from female shoppers.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

A thriving Thrift sets brisk unit rollout pace

PITTSBURGH—Thrift was poised to roll out new drug stores at a brisk pace, after posting its fifth straight year of record sales and earnings.

The JC Penney subsidiary planned to open 30 new stores in existing markets in Pennsylvania and New Jersey, Atlanta and Kansas City. That's a step up from the 21 launched last fiscal year, which was a hefty advance over expansion in recent years. In addition, Thrift plans to remodel 40 stores in 1987, the same as in 1986.

Drug store earnings growth outpaced sales, Thrift sources said, while in double digits on both counts in the fiscal year ended Jan. 31.

Total Thrift sales, including the mail-order prescription business, were $803.9 million, up 14% from 1986.

Sales for the 392 drug stores operating at year's end were $666 million, up 8.5%; earnings grew faster, Thrift officers said.

DME program expanded

During the year, Thrift began its own delivery and service program for durable medical equipment in its Atlanta market and then expanded it to stores in six other states. The program was offered through the 280 units that had been providing DME to customers through a joint venture with a dealer for 3½ years.

Thrift made the strong commitment in the home health care segment because it blended well with its health care image and can be supported by the customers' trust of pharmacists.

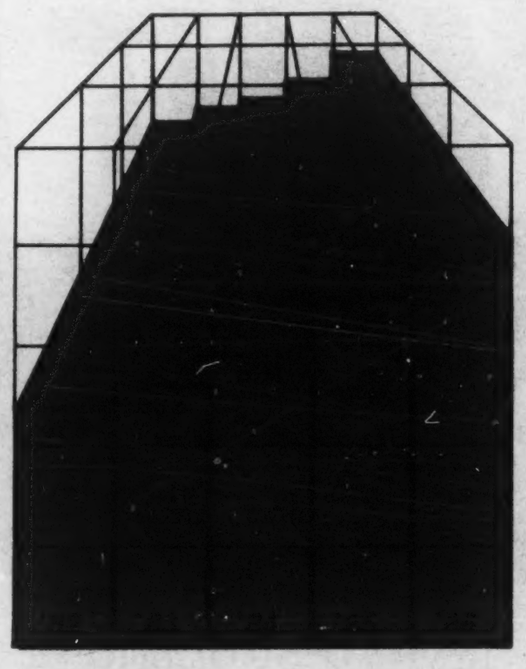
Customers can call pharmacists on an 800 number to order goods and discuss needs. They can order from the stores or at home, receiving products through Thrift's own delivery fleet. The chain set up four primary distribution centers, in Atlanta; Reading, Pa.; Cherry Hill, N.J.; and in Pittsburgh, which carry a full line of DME.

'Frequent buyer' builds sales

Thrift continued to participate in a "frequent buyer" program that officials said was building sales among its participating drug stores. Consumers were accounting for tickets much higher than the chain had predicted going into the program, thus diluting the impact of the $1 rebate the drug stores gave to customers who made $10 purchases with filled stamp books.

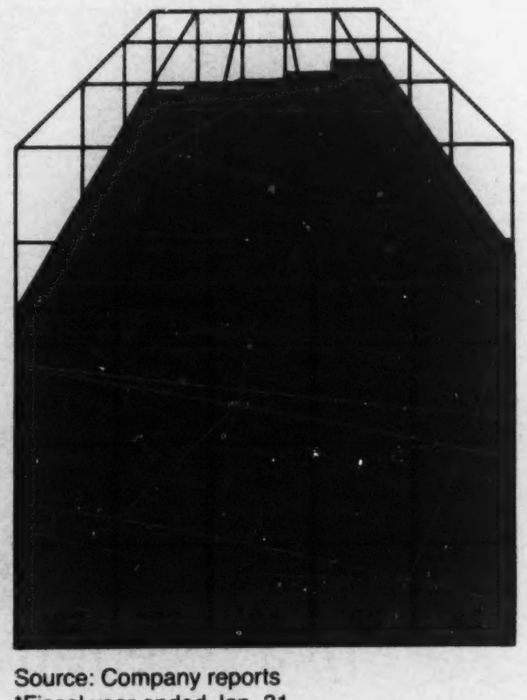
Thrift planned to enter in March its third 26-week contract for the program, which involves Acme Supermarkets and hundreds of other participating retailers.

Thrift sales grow 14.2%
(in millions of dollars)



*Year ended Jan. 31
Source: Company reports

Thrift grows by 20 drug stores
(Number of stores)



Source: Company reports
*Fiscal year ended Jan. 31

The chain moved forward on several fronts to automate the front end. It planned to begin rolling out a POS system into 50 stores this year that will use wand and slot scanning. (Pharmacy systems are in all but 15 stores and will be installed in all new ones.)

Thrift also began testing a computerized in-store video display terminal that allows customer interaction through a touch screen. The chain was evaluating results of a three-month test of nine units that were put into six stores in Pittsburgh and Philadelphia.

The system is built around a free-standing computer that is able to receive and display television images. It can carry advertising and dispense coupons or advice.

Thrift reshuffled top management to compensate for the departure of Robert Oberfield, senior vp-store operations. President James Armor announced that Anthony Civello would take over Oberfield's post, with responsibility for stores and catalogs.

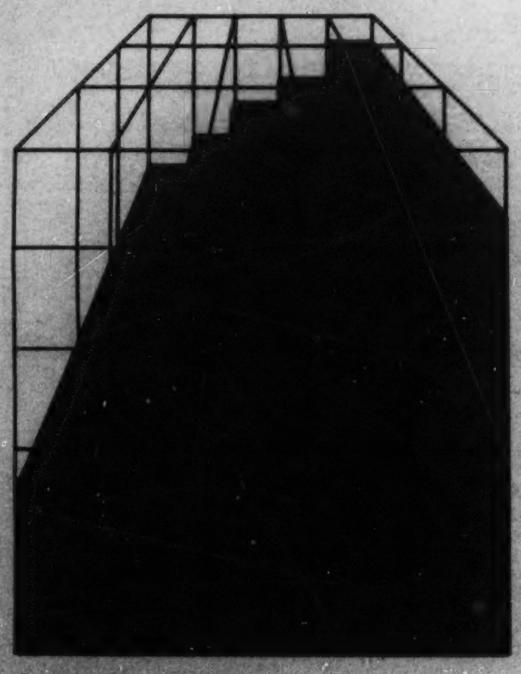
Medicine Shoppe succeeds with strong Rx image

ST. LOUIS—With the kind of low-key approach befitting a strictly pharmacy-oriented franchise operation, Medicine Shoppe International has quietly catapulted itself into the upper ranks of chain drug retailing in recent years.

Utilizing a tiny store format of 1,050 sq. ft. and a nationwide network of devoted pharmacist-franchisees, the 19-year-old company has found a solid niche in dozens of major markets.

The chain has successfully positioned itself in all 48 contiguous states as a convenient, service-oriented neighborhood drug store. Its tight retail focus is devoted almost exclusively to providing health-care products and services, with prescriptions accounting for 91% of its franchisees' business. The remaining 9% is made in OTC drugs, vitamins and other health-related products.

Medicine Shoppe sales increase
(in millions of dollars)



Source: Company reports
Fiscal year ended Sept. 30, 1986

Active in outreach programs

Its powerful image as a health care provider is bolstered by an active slate of health-related outreach programs for the communities in which Medicine Shoppe operates. The franchise chain participates in numerous health-care screenings in local communities for cancer, high blood pressure, diabetes and other problems. Its pharmacist-owners are also encouraged to provide extensive patient counseling at the pharmacy counter and to get involved in community healthcare efforts through talks at schools and nursing homes, board memberships, etc.

"While our pharmacists' excellent service continues to generate industry-high loyalty levels, our marketing programs must first attract customers to the Shoppes," the company noted in its recent annual report.

In fact, the company reported, the three national healthcare screenings and more than 3,200 local screenings its franchises conducted last year were directly responsible for luring more than half a million potential customers into the stores.

The company's tight pharmacy-oriented focus and its attention to service have paid off. Total sales reported by its 641 pharmacies in operation last year were up 15% on a same-store basis, 22% overall, to $261.5 million. Net earnings were up 21% to $3.6 million.

Medicine Shoppe's central office is also facing unprecedented demand from pharmacists interested in running their own small businesses. The company began fiscal 1987 with a backlog of 169 signed license agreements for new stores and a cash position strong enough to finance growth internally. "We are laying the foundation for continued growth—to and beyond the 1,000-unit level," noted president Jerome Sheldon.

Eschewing the broadbased merchandising approach of most chains and independents, Medicine Shoppe has achieved its rapid growth by selectively targeting middle-aged and elderly middle-income consumers. The stores guarantee the lowest Rx prices in their market areas and stress extensive professional services. Patient compliance and potential adverse drug reactions are monitored through the use of detailed patient profiles, brochures, counseling and filmstrips.

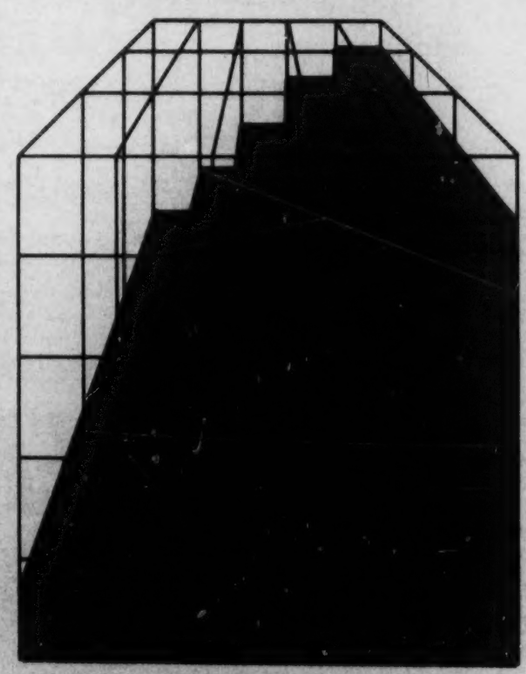
Generics promoted

To help assure low prescription prices and profits, generic drugs are promoted and operating expenses are held down in a variety of ways. Medicine Shoppe pharmacies are open only 43 hours a week and, without sundries, require the staffing of just one pharmacist-owner and one clerk. The tight inventory profile and low space requirements reduce carrying and rental costs, and advertising is often piggybacked on screening programs that rely on free publicity to further cut costs.

"Medicine Shoppe International is an excellent example of an astute marketing organization that carefully has defined its target market, developed a product and service offering to satisfy the target market's wants and properly priced, promoted and distributed the offering," noted one report on pharmacy marketing.

To maintain growth momentum, Medicine Shoppe executives have committed to a major, $1 million upgrading in automation. The new system will be capable of handling the information flow and data processing needs of a chain of well over 1,000 pharmacies, as well as third-party prescription claims processing and improved site selection ability, said Sheldon.

Medicine Shoppe net income rises
(in thousands of dollars)



Source: Company reports
Fiscal year ended Sept. 30, 1986

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Arbor builds Mich. base, launches in new markets

TROY, Mich. — Arbor Drugs went public in 1986, signaling its emergence as a major regional drug chain and an aggressive, growth-oriented competitor for Perry Drug Stores in Michigan's lower peninsula.

Much of the $17.6 million in new capital raised by the public offering went into the buyout last August of Sentry Drug Stores, a privately held, 19-store chain based in nearby Romulus, Mich. The Sentry acquisition gave Arbor a net addition of 17 stores and boosted its store total to 69. It also strongly bolstered the growing chain as the No. 2 drug retailer in the greater Detroit market, the nation's fifth-largest drug store market.

Fiscal 1986 was significant for Arbor in other ways, as well. For the first time, the chain leaped well beyond its southern Michigan base, opening stores in Charlotte, N.C., and Myrtle Beach, S.C. A second store has since been added in Charlotte, and others will follow as Arbor begins to capitalize on what chairman and president Eugene Applebaum said was an area of new opportunity, despite its distance from the central office.

Expands home market

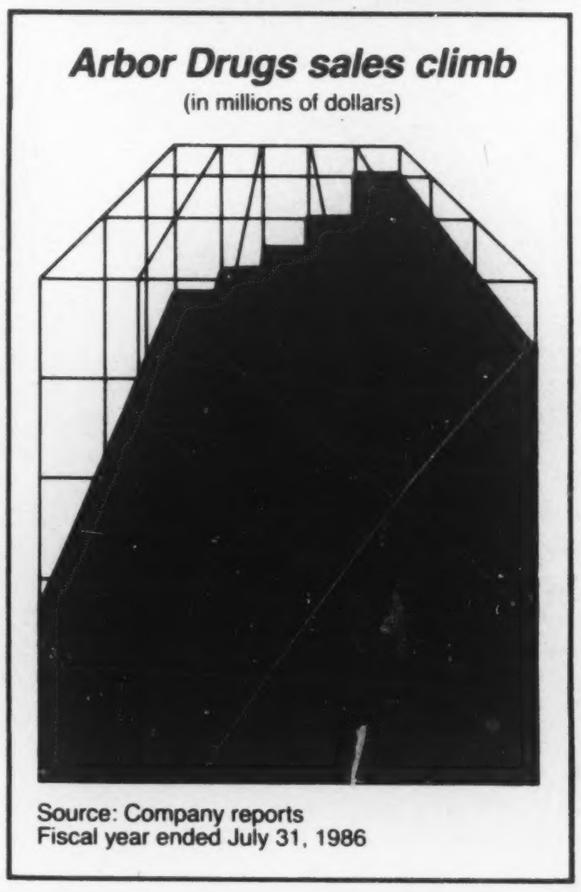
For the time being, the chairman said, most of Arbor's expansion will remain concentrated in its home market. "We expect to be operating 85 stores by the end of calendar 1987," he noted. "We will continue, of course, to be open to additional growth opportunities through acquisitions, which may present themselves during the course of the year. Based upon this anticipated growth, we are evaluating potential locations for new office and warehouse facilities."

Following its purchase of Sentry last year, Arbor launched an extensive remerchandising, remodeling and employee training program for the acquired Sentry units. The remodeling process is continuing, funded by the public offering and internally generated funds. The steady expansion pace is also continuing—Arbor had 72 units on line at the end of January.

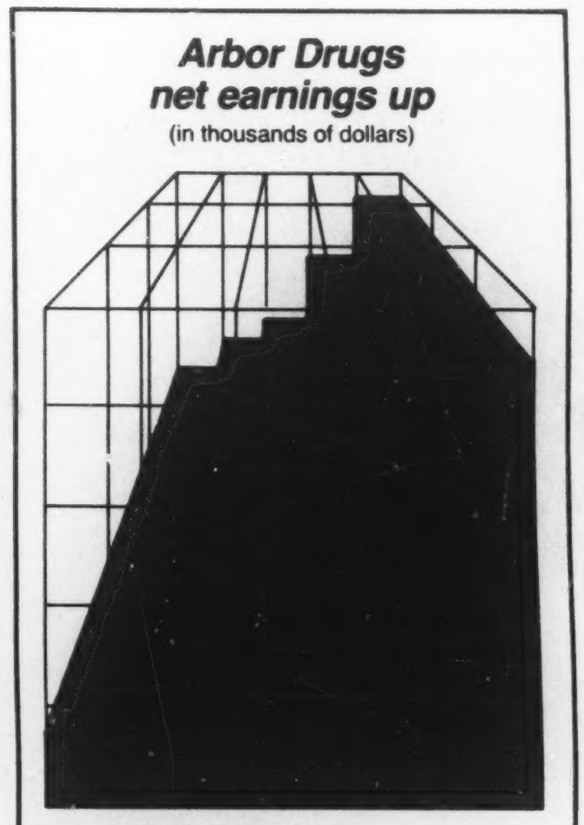
Robust growth rate

Arbor's move into the public arena last year spotlighted a highly successful regional drug chain in detail for the first time. According to its first annual report as a publicly held company, Arbor has enjoyed a compound annual growth rate of 53.6% in its net earnings since 1981, to $9.2 million in 1986. Sales in the past five years have grown at a 29.4% compound annual rate, to $151.5 million in 1986 from $120.5 million the previous year. Same-store revenues rose a solid 11.1% last year, with average sales per square foot rising to $339 from $323.

Some of those gains were linked to especially strong sales in prescription drugs, which now account for 27.2% of Arbor's $3.2 million in average per-store sales. Arbor's strong support of low-cost generics has enabled it to boost its participation in HMOs and other third-party plans, company officials report.



Source: Company reports
Fiscal year ended July 31, 1986



Source: Company reports
Fiscal year ended July 31, 1986

Focuses on generics

"Arbor has expanded its prescription drug business by promoting the use of less costly generic drugs whenever possible and by entering into contracts with third-party reimbursement programs," a company report states. "The 'Arbortech' computerized pharmacy system in each store . . . enables the company to identify generic equivalents of brand-name drugs, control prescription prices, increase the speed of processing prescriptions and thereby expedite payments from third-party reimbursement programs.

"This is especially important in Michigan," the report continues, "where more than half of the company's prescription sales are subject to third-party pay programs."

Arbor is also a strong promoter of private-label products, with more than 1,000 house-brand items in its stores and more on the way.

The chain also credits its aggressive photofinishing program with boosting overall results. Through a program called "Picture! Picture!" Arbor offers two prints for the price of one, with guaranteed overnight delivery. Photo sales now account for 8.8% of total revenues, according to the company.

Begley stresses identity as 'good health people'

RICHMOND, Ky, — Begley Co. moved to strengthen its retail division by reformatting and aggressively promoting a health care image for its drug and home health care stores.

It rolled out new formats for drug and home health care units and said that the division is improving as a profit center in relation to its industrial division—the dry cleaning stores, which accounted for 25% of 1986 annual revenue.

"What we're trying to do is make people understand that we are a drug store," said a Begley official regarding the updated prototype Begley has installed in three of its 42 drug stores. The format is part of a broad drive to reinforce Begley's identity as "the good health people": the provider of health care, name-brand merchandise and service.

Impact of write-offs

While Begley officials entered 1987 in a decidedly upbeat mood about the stores' future, earnings in the first nine months of fiscal 1987 (ended Dec. 31) were battered by write-offs.

Net income for nine months was down 25% from the comparable period in the 1986 fiscal year, mostly due to a one-time write-off on inventories and receivables. The write-off cut per share earnings by 53¢, leaving nine-month per share earnings at $1.18 ($652,000), compared with 1986's $1.57 ($870,000). The loss of tax credits cut the year-to-date earnings 11¢ more.

Sales were staying ahead of the previous year's, with nine-month sales at $56.4 million, 2.7% above last year's $54.9 million.

Begley had ended the 1986 fiscal year (March 30) with sales up 6.5% at $70.4 million, compared with $66.1 million. Its last full-year earnings were hurt by a higher tax rate and corrections to overstated receivable balances. Earnings were $701,000, compared with $694,800 in fiscal 1985.

Begley planned to roll out its new drug store format into new stores and into remodels, which are also receiving a new decor package. Chairman Robert Begley said the format will be the model for the next generation of the chain's drug units.

Begley geared up to organize its customer base with a trade show. The chain is planning a four-day event in May that will bring together manufacturers, vendors of services, entertainers, lecturers and "Zuppies"—zestful upscale people in their prime.

The 50- to 65-year-old age group is a key target audience for the drug store business, since it is fast growing, has many health needs and has money to spend.

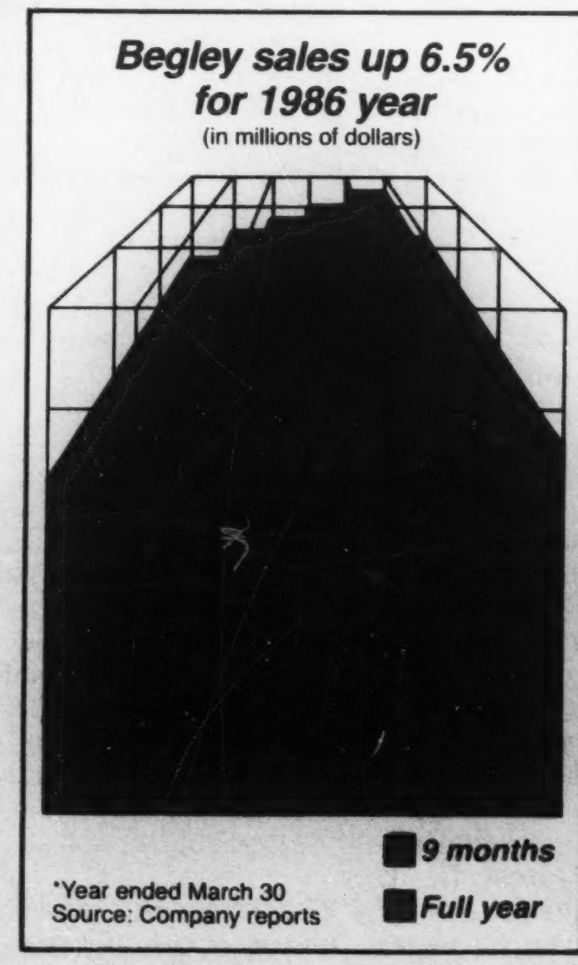
The chain ended the year with 42 drug units, a zero net gain. Officers said emphasis was placed on paring out marginal and underperforming units as part of an operations reassessment.

Home health overhaul

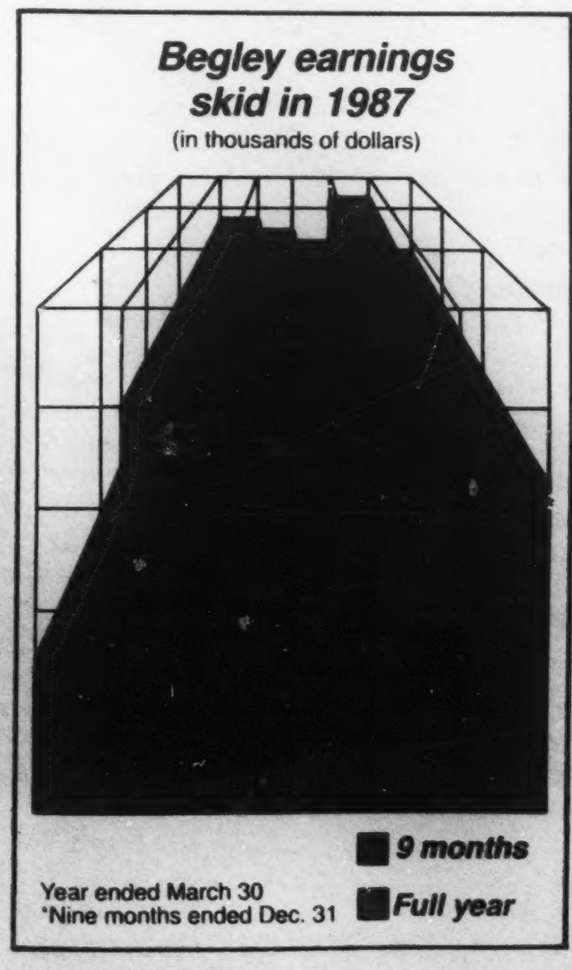
When it opened its seventh home health care store in December, the unit featured a new look designed to work best in small-town markets.

The new format was only one aspect of an overhaul of the home health care business that refocused inventory, revamped Medicare billing and created a new program for customer education and detailing to professionals.

Begley completed installing its Health Mate pharmacy computer system in all stores and is now studying how to integrate the computers with electronic cash registers at front-of-store and with the corporate office central system.



*Year ended March 30
Source: Company reports



Year ended March 30
*Nine months ended Dec. 31

Rx/OTC news **PHARMACY**

Advanced Rx computers aid in management

NEW YORK — Significant advances in software development and more technology for the buck are enabling pharmacists to use computers far beyond the routine of recording prescriptions and typing labels.

Pharmacists, once fascinated by the speed and accuracy with which a pharmacy computer system would record prescriptions in patient profiles, are turning more of their attention to using the computer as a store management tool.

For some retailers, such store management tasks as tracking third-party prescriptions, analyzing sales data and keeping prices up to date played a major role in their decision to purchase a system.

"We realized that any computer system we purchased would have to do more than just type labels and record prescriptions on patient profiles," said Irby Bourque, assistant pharmacy director for K&B. "With the increase in third-party business, it was essential to get a system that would allow us to make sure that what we are billing we are receiving."

Needed versatility

K&B began installing freestanding pharmacy computer systems in all of its 110 stores two years ago, a project that Bourque said will be completed this October. After testing several systems, the New Orleans-based chain settled on a system it believes fills its needs.

"It's a big investment and you want to make sure that the unit you finally end up with will do everything you want it to do," said Bourque.

With its new system, the chain could change wholesale prices of product every day if it wanted to, but prices are routinely changed weekly, according to Bourque.

"Even more important is the ability to change NDC [National Drug Code] numbers," explained Bourque. "With so many products changing hands because of acquisitions and the like, the computer makes the chore of keeping track of those numbers easy."

Every product is assigned an NDC number unique to the company manufacturing or distributing the product. When a product changes hands, a new NDC is assigned. Bourque said keeping tabs on those changes is particularly important because every third-party prescription form requires the product's identifying NDC number.

Bourque is not alone in his expectations from a pharmacy computer.

Chain drug stores with 100% computerized pharmacy departments

Company	No. of stores
Longs	222
Perry	210
Fay's	153
Big B	153
Genovese	79
Kerr	70
Snyder	55
Arbor	51
Taylor	45
Discount Drug Mart	22
Drug Fair of N.J.	21

Source: *Drug Store News* 1987 Chain Drug Survey

According to a survey conducted by *Drug Store News*, more than three-quarters of the MIS executives polled ranked such features as price updates, filling in third-party forms and tracing third-party billings as "very important."

Other items on the executives' "wish list" of what they would like a computer to do were keeping patient profiles and warning of drug interactions.

The survey revealed that for the most part, the computer systems they purchased are filling the bill nicely. The executives responded that they were "extremely or very satisfied" from 53% to 90% of the time.

Many indys still without

While it seems that one would be hard-pressed to find a drug store without a pharmacy computer, according to Bill Lockwood, publisher of *Computer Talk*, it is estimated that anywhere from 40% to 45% of independents still do not have a computer system.

"While virtually every chain has some computer system in some stores, we estimate that 75%-80% of chain *units* are operating pharmacy computers," said Lockwood.

Lockwood believes that low entry-level pricing, combined with "broader and deeper applications," will make the computer even more desirable in the next few years.

Price factor

"Pharmacy computer systems are becoming affordable even for the little guy in business," said Lockwood. "At one time it was necessary to justify the cost of a computer based on number of prescriptions filled, but today, with entry-level systems so inexpensive and third-party prescription demands so high, it almost costs the average pharmacist more to be without a computer."

Over the past several years, pharmacy computer prices have dropped dramatically. Lockwood estimates that in the past year alone, prices have dropped nearly $1,500, 10% over the previous year.

Responsible for some of that decrease was a shift from mini to micro hardware. With the advent of more powerful personal micro computers, many pharmacy computer companies seized the opportunity of presenting their software on the less expensive machines. Leading the mar-

Continued on page 136

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PHARMACY Rx/OTC news

Rx computers help tackle management tasks

Continued from page 135

ket in micro hardware for the past several years was IBM, but according to Lockwood, with the introduction of IBM clones, pharmacists can sometimes get an even better deal.

"And I'm not talking about no-name clones, either," said Lockwood. "There are several reputable computer companies like Texas Instrument, NCR, Leading Edge and AT&T, to mention a few, who have produced good, inexpensive, IBM-compatible hardware."

For drug stores that jumped on the computer bandwagon early, the time has come to upgrade their systems for the smaller, less expensive, but more powerful freestanding units.

At Hilley's Pharmacy, a seven-store chain headquartered in Burleson, Tex., the time had come to upgrade its on-line system it had been using since 1974.

"We were happy with our system but were told that they were going to discontinue it, so it was time to look around for another company," said Wayne West, director of pharmacy operations.

West said that a major criterion for him in choosing a new system was stability of the company.

"We've seen them come and go over the past 12 years," said West. "We also wanted a system that we could grow with."

West said the new in-store, freestanding systems give his chain more flexibility in handling prescriptions and getting hardware repaired.

"With the older on-line systems, all data was processed from our stores to a centrally located unit," explained West. "If there was a problem with our main processor, it interfered with operations at the store level. With freestanding units, each unit can be attended to separately."

West said that uniformity in hardware was also a key factor in the new installations.

"We made sure that all the hardware was from one company," said West. "Some of the companies mix and match hardware, and many times you have to search out separate companies to fix it. Now if we have a problem, we can go to one source to get it repaired."

Software variety

The newer, smaller personal computers have also allowed pharmacists to utilize the thousands of commercially available software packages.

According to Lockwood, pharmacists are beginning to use word processing programs, spreadsheets and even desktop publishing programs to manage and promote their stores.

"With word processing programs, pharmacists can send out a mailing to selected customers by just accessing patient profiles. This can be especially valuable for drug recalls," said Lockwood.

Lockwood said that some pharmacists are becoming even more creative by using their computers to publish newsletters to customers.

"With simplified desktop publishing programs out in the market, pharmacists can now develop a monthly or weekly newsletter with very little training," Lockwood explained. "The nicest thing about all these add-on programs is that they can all run off the same hardware as the pharmacy software."

Frees up pharmacists

While all these features have improved the way pharmacists are managing their prescription departments, for Bob Duffy, vp-professional relations at Happy Harry's, the computer has been a way of freeing up his pharmacists, allowing them to consult with patients.

"We encourage our pharmacists to spend as much time as possible interfacing and consulting with customers," said Duffy. "The computer allows our pharmacists to do this. We are training technicians to fill prescriptions off the computer and then letting our pharmacists check them. There is no reason for our pharmacists to spend time at the computer. His time can be better spent with the customer."

Other retailers are discovering that having a computer in their pharmacy departments makes for an excellent advertising campaign theme.

According to the *Drug Store News* computer technology survey, more than two-thirds of the chains with computer systems polled said they used it as a marketing/management tool.

Used in advertising

Some of the more popular themes used in their advertisements include fast service, efficient processing of scripts, patient security, ease of prescription renewal and overall cost savings to the consumer.

K&B recently ran a television advertisement that "humanized" a computer, which explained to the public many of the features they can expect when getting their prescriptions filled at a K&B store.

And at Fay's Drug, three 30-second spots highlight its Accu-Fay's pharmacy computer system by emphasizing the speed with which prescriptions can be looked up.

According to the survey, the majority of stores said they advertised their computer system through newspapers (80%), while others used radio (60%), direct mail (40%), in-store signs, bag stuffers, and brochures (36%).

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DRUG WATCH

Data service lists anti-ulcer drugs as top '86 sellers

NEW YORK — The antiulcer medications Tagamet and Zantac were the top-selling drugs of 1986, according to Pharmaceutical Data Services' annual top-20 list, announced at a press conference here last month.

While Tagamet, with 1986 sales of $419 million, maintained its lead, Zantac made great strides, increasing its sales by 38% to a total of $401 million, taking the No. 2 spot from Inderal, which this year slipped to No. 6.

If Zantac was one of the year's success stories, Inderal, which dropped 34% in sales, was one of the year's losers. The slippage was due to this being the product's "first full year of generic competition," said Michael Smith, PhD, PDS's vice president of sales and marketing.

Smith said Inderal's drop from $371 million in 1985 to $246 million in 1986 also disproves a point about generic beta-blockers.

"Generic propranolol was pooh-poohed by analysts who said consumers would not accept generics for cardiovascular disease," Smith said.

Smith said that based on PDS's tracking of the market, generics normally take 25% to 40% of the market after the first year but then rarely eat into more of the brand's market share.

Inderal's drop was so large that even though Dyazide's sales declined 7% from $282 million in 1985 to $261 million in 1986, it moved up from No. 4 to No. 3 on the list.

"Diuretics suffered because of generic competition and a change in therapy," Smith said.

One of the biggest gainers on the list was calcium channel blocker Cardizem, which increased 48% in sales from $140 million in 1985 to $207 million in 1986. Calcium channel blockers are not being used for hypertension control, and so are ACE inhibitors such as Procardia.

These new therapies are being used as a first line of treatment by some doctors because "16% of ACE inhibitor patients were not on anything else before," Smith said.

Vasotec, one of the newest ACE inhibitors, "receives the Oscar for the year's most successful launch," Smith said. He predicted that in 1987, its second year on the market, Vasotec will rack up $105 million in sales.

"The big news of the year was Feldene and the effect that adverse publicity can have on your product," said Smith.

Continued on page 141

Top 20 products
U.S. retail pharmacy sales
(in millions)

1985 rank	1986 rank	Product	1985	1986	% change
1	1	Tagamet	$397.9	$419.0	+ 5
3	2	Zantac	290.2	401.4	+38
4	3	Dyazide	281.9	261.1	− 7
8	4	Naprosyn	231.5	260.1	+12
5	5	Tenormin	253.1	254.9	+ 1
2	6	Inderal	371.5	246.5	−34
9	7	Keflex	210.7	228.0	+ 8
10	8	Procardia	195.9	212.3	+ 8
6	9	Feldene	240.5	210.8	−12
16	10	Cardizem	139.9	207.5	+48
14	11	Xanax	152.4	201.9	+32
12	12	Ortho-Novum	185.0	200.1	+ 8
23	13	Capoten	118.4	174.5	+47
7	14	Valium	234.6	166.3	−29
11	15	Lopressor	174.0	162.5	− 7
19	16	Ceclor	124.5	150.4	+21
17	17	Clinoril	129.8	131.0	+ 1
22	18	Transderm-Nitro	119.1	129.8	+ 9
20	19	Motrin	119.8	123.6	+ 3
13	20	Aldomet	167.7	108.6	−35

Source: Pharmaceutical Data Services Inc.

to artificial insemination

these drugs is that they are not specific for the clot. He said these available medicines dissolve the clot but many cause serious bleeding complications because they also attack fibrinogen, the blood component from which the fibrin evolves.

There are "some very convincing studies" that demonstrate that dissolving clots is beneficial to patients in the early stage of a heart attack, according to the researchers.

* * *

At Baylor College of Medicine, Houston, arthritis specialists are studying a drug they hope will alleviate the ulcers and stomach pains caused by standard arthritis treatments.

Baylor is one of 30 centers studying the experimental drug misoprostol. Early results indicate that misoprostol may prevent the ulcers often caused by standard arthritis treatment.

According to Dr. Edward J. Fudman, a rheumatology instructor at Baylor, the new drug would help many arthritis sufferers who "are forced to discontinue therapy because of the treatment's side effects.

"We are looking for a way to allow these people to take the medication and minimize their stomach side effects," said Fudman.

The study is limited to people with osteoarthritis, a condition that occurs when cartilage, the rubbery tissue at the ends of bones, breaks down. This degeneration causes pain and sometimes inflammation in the joints.

"The nonsteroidals treat the symptoms of osteoarthritis," explained Fudman. "There are no treatments to prevent the underlying cause of the disease or to prevent the cartilage from deteriorating."

Anti-ulcers draw sales

Continued from page 139

Concerns about the risk of peptic ulceration and bleeding and a petition by Ralph Nader's Health Research Group to have the product banned took their toll on sales, according to Smith. Feldene lost the lead in the antiarthritic market to competitor Naprosyn and lost 12% in sales, dropping in rank from No. 6 to No. 9 on PDS's top-20 list.

Other observations by Smith:

- By a 2-1 margin, HMO doctors make no distinction between the brand and the generic drug.
- For the first time, a new delivery system drug has made it on the top-20 list. Ciba-Geigy's Transderm-Nitro patch ranked No. 18 for 1986.
- Generics account for 36% of the prescription ibuprofen market. New ibuprofen OTC products "have not impacted the prescription market."
- In a survey of 1,000 patients, side effects were the perceived reason for a discontinuance of medication by 23%.

* * *

Mylan has begun distributing the first generic version of Boehringer-Ingelheim's Combipres (clonidine/chlorthalidone). The estimated market for Combipres is $17 million to $18 million annually.

Mylan is selling its generic version at an average wholesale price of $23.35 for 100 capsules of 0.1mg clonidine/15mg chlorthalidone; $31.20 for 100 mg of 0.2mg clonidine/15mg chlorthalidone; and $37.70 for 100 capsules of 0.3mg clonidine/15mg chlorthalidone.

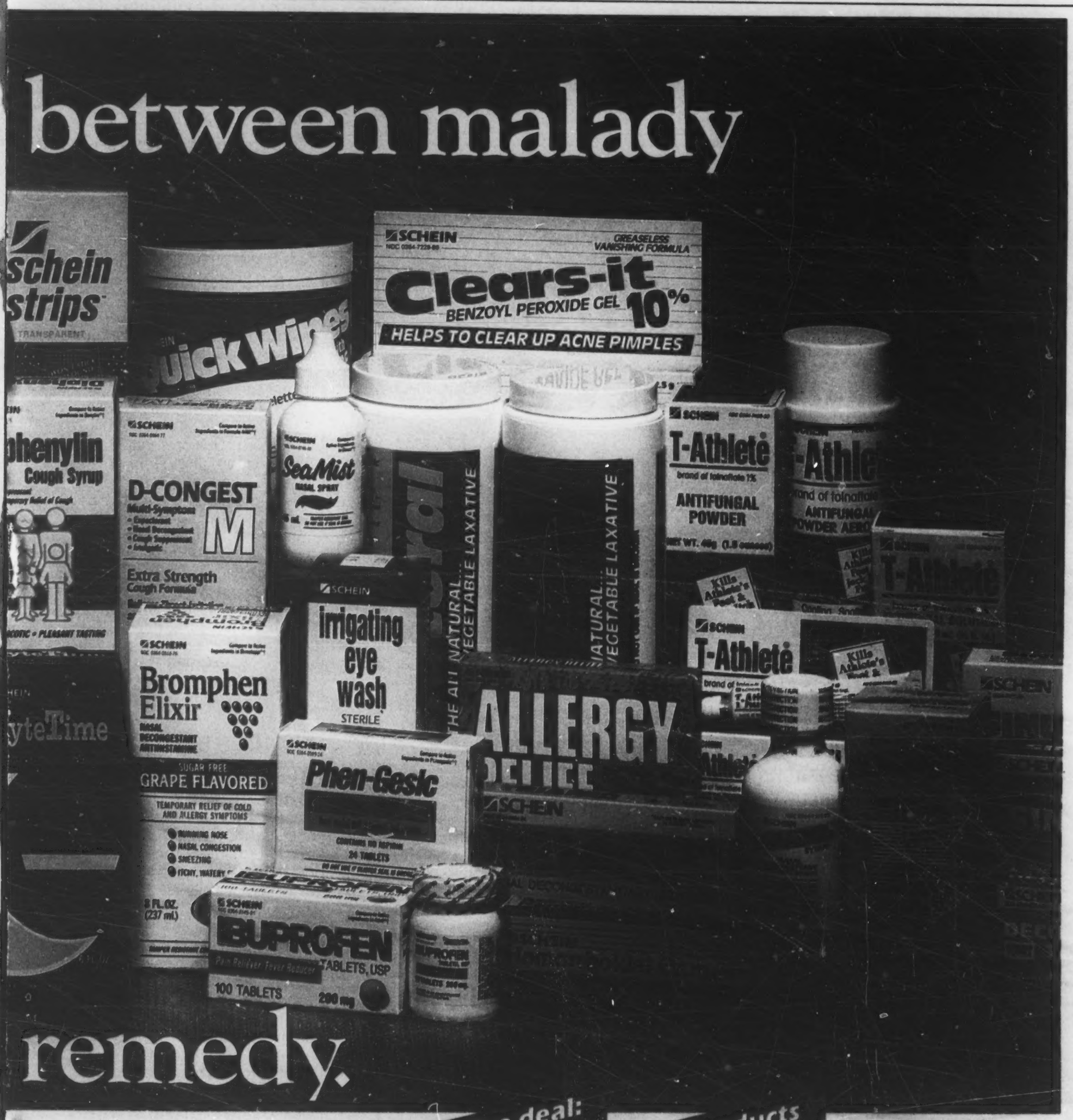
* * *

Bristol-Myers will be marketing a new oral form of VePesid (etoposide), used in combination chemotherapy as a first-line treatment of small cell lung cancer. The new oral form should be available for physicians this summer. Bristol-Myers received F.D.A. approval in January.

The company said the new oral form will help reduce visits to physicians and clinics and eliminate the need for some injections by allowing the patient to self-administer VePesid in its oral form.

According to the American Cancer Society, small cell lung cancer will account for 15%-30% of the 150,000 new cases of lung cancer in the United States this year. VePesid was the first chemotherapeutic agent that had been made available in more than a decade for the treatment of small cell lung cancer when it was approved for this indication in 1986, the company said.

between malady



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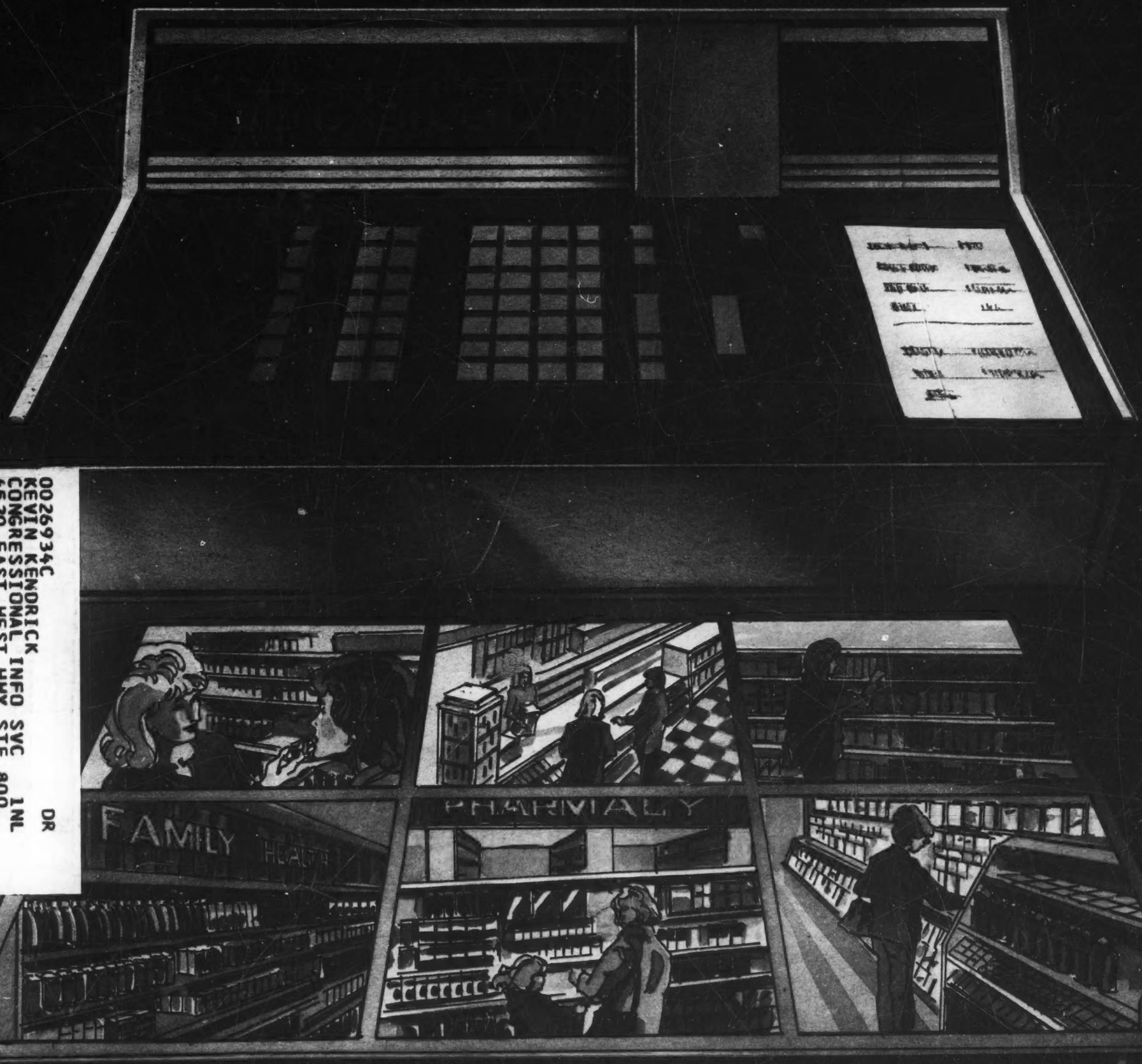
THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PART TWO



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DRUG STORE NEWS

Vol. 9/No. 9 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. April 27, 1987

Hannan named president of Thrift

Armor retiring June 1 at age 60

PITTSBURGH — Robert Hannan, Thrift Drugs' senior vp-corporate development, will replace president James B. Armor, who is retiring at age 60, on June 1.

A 20-year Thrift employee, Hannan will be part of a three-man Office of the President at the 392-store chain, said parent JC Penney.

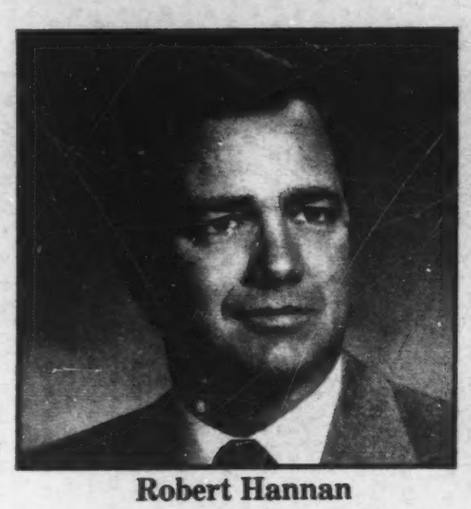
Joining Hannan in the office is Anthony Civello, named to the new post of executive vp, while keeping the duties of senior vp-store operations, his former post.

Also, Lawrence Rose was promoted to executive vp in the Office of the President. He will keep the functions of senior vp-merchandising and marketing, his former post, and assume responsibility for distribution. Civello and Rose will report to Hannan.

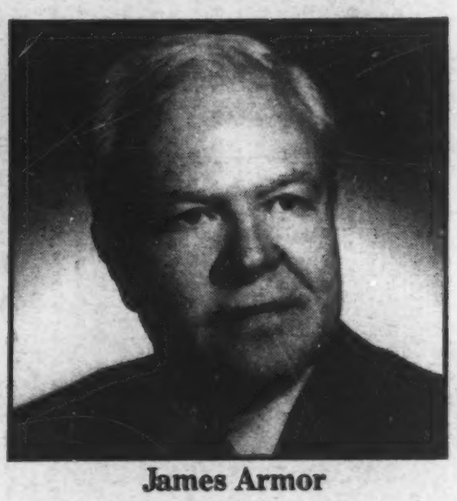
Armor said that the three-man Office of the President is new to Thrift, but is a concept that has been used within the parent company. JC Penney chairman William Howell, for example, is part of a five-person Office of the Chairman, which handles policy and strategic planning.

"I think Thrift will be comfortable with the concept," said Armor, who noted that all of the Executive Committee members had been considered

See **Thrift,** *page 241*



Robert Hannan



James Armor

Four categories reach 10% growth range

Pharmacy	**10.5%**
Stationery	**10.1%**
Candy	**9.7%**
OTC Proprietaries	**9.3%**

Source: *Drug Store News* survey

Sales gains were more modest at drug chains in calendar 1986. Retailers focused efforts on core health businesses, but also found success with high-margin stationery and fast-turning candy. See *Drug Store News'* 1987 Annual Report, Part Two, page 129.

Duane Reade steps outside of Manhattan

NEW YORK — Duane Reade, the only drug chain with a major presence in urban New York, is planning to open four more stores by the middle of 1987, including its first nonManhattan store, which will open shortly on Fulton Street in downtown Brooklyn.

President Eli Cohen says the expansion will give Duane Reade a total of 30 stores in the New York market and the potential to hit $200 million a year in annual sales by the end of 1987.

The average Duane Reade store generates between $5 million and $6 million a year in sales.

The Brooklyn store will be in a pedestrian-traffic-only district on Fulton Street. Although this will be Duane Reade's first store out of Manhattan after 23 years in business, Cohen says the location

See **Duane Reade,** *page 241*

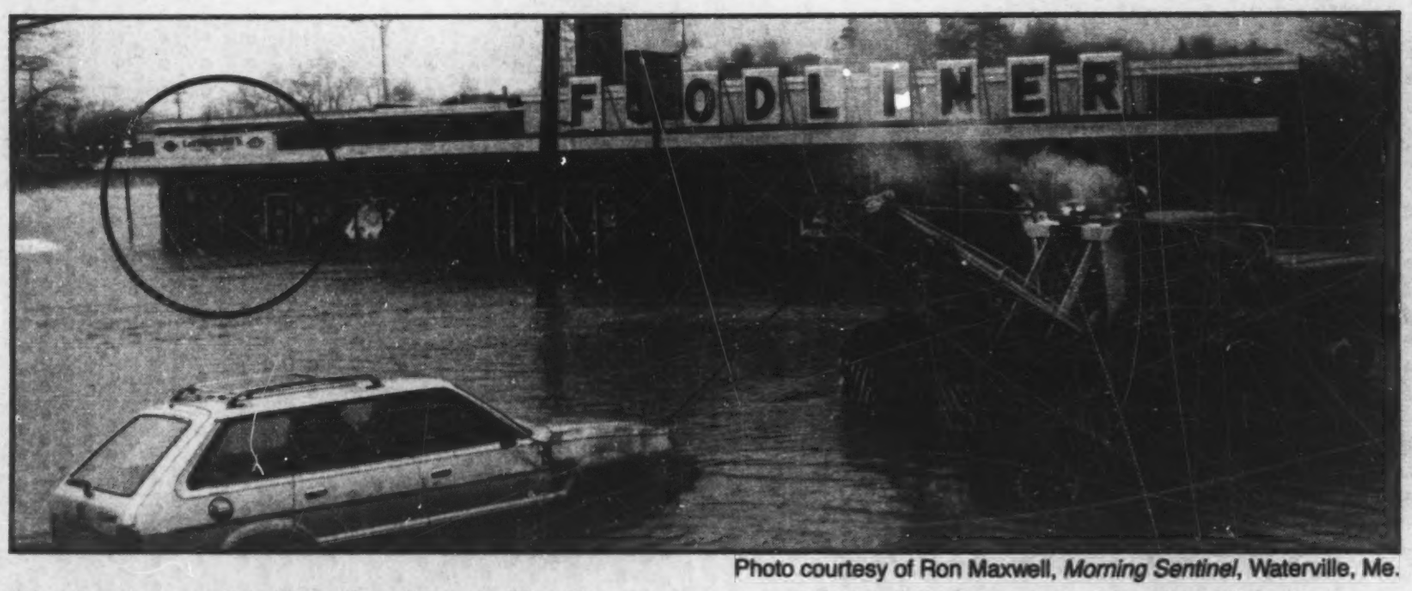


Photo courtesy of Ron Maxwell, *Morning Sentinel*, Waterville, Me.

Floodwaters at this Winslow, Me., LaVerdiere's store rose 6 ft. higher than shown in this photo.

3 LaVerdiere's rally from flood

WINSLOW, Me. — With the help of employee crews and suppliers, LaVerdiere's Super Drug Stores reopened three stores heavily damaged by the worst flooding in residents' memory.

But the 60-store chain incurred over $400,000 in uninsured damages to inventory and equipment that will severely impair earnings, said Steve LaVerdiere, president.

"Everyone really rose to the occasion. We're getting back on our feet, just like the communities and the towns," said LaVerdiere.

Teams of 20 to 30 employees, led by district managers, worked 14- to 16-hour days starting April 1, when record-level floods hit statewide.

Two LaVerdiere's unit that suffered complete inventory losses in Winslow and Gardiner were closed for eight and nine days before reopening. A Mexico, Me., store in heavy-hit Androscoggin County, with 30% inventory loss, closed for five days, LaVerdiere said.

Meanwhile, suppliers responded to an appeal by

See **LaVerdiere's** *page 241*

F.T.C. official airs plan to ease co-op ad rules

WASHINGTON — In a move likely to stir fresh controversy among drug chains and independent pharmacists, a high-ranking Federal Trade Commission official announced plans to relax long-standing co-op advertising rules designed to protect small retailers from price discrimination schemes.

But the proposals unveiled earlier this month by F.T.C. Commissioner Terry Calvani would also weaken current agency ground rules preventing manufacturers from structuring their cooperative ad programs to enforce resale price maintenance conspiracies against chains.

Calvani's scheme for "improving" the commission's existing co-op ad guidelines surfaces at a time when chain and independent drug store operators are already hostile toward the F.T.C. as a result of support among the agency staffers for physician drug dispensing.

Unpopular with indys

Independents are expected to be particularly enraged by

See **Co-op** *page 241*

LATE NEWS

- WOONSOCKET, R.I.— CVS plans to open its fourth distribution center, in southern New Jersey, sometime around the middle of 1988.
- TROY, Mich. — Arbor Drugs said it has bought and will operate five clinic pharmacies in Detroit-area hospitals through a new Arbor subsidiary in a joint venture with the Detroit Medical Center Clinics Inc.
- CLEVELAND — Sherwin-Williams, which is divesting its Gray Drug Fair stores, reported corporate first-quarter sales for continuing operations of $380.5 million, compared with $332.3 million last year. Total net income was $8.2 million, up from $6.9 million in the same 1986 period. The paint firm declined to break out drug store results.

Peoples revamping cosmetics

ALEXANDRIA, Va. — Peoples Drug is in the process of developing a new prototype for its cosmetics/fragrance departments.

The prototype will move the cosmetics/fragrance section from its current position at the far side of the front of the store to the opening aisle in the front of the store.

Health and beauty aids, which is now the opening department, will be switched to the far side of the front end. Thus, cosmetics and fragrances will become the first department consumers see as they enter the store.

Four or five versions of the new prototype are scheduled to be tested this summer, and Peoples hopes to begin revamping as many as 80 to 100 existing stores by late summer or midfall.

Heightened appeal

Both cosmetics buyer Judy Wincze and executive vp-marketing Fred Edwards say the new prototype will make Peoples' cosmetics section not

See **Peoples,** *page 241*

In this issue: Inside Pharmacy

- Medical Malls
- OTC Buyer Feedback Survey
- Independent Focus

Expanded housewares expo draws criticism

Buyers, vendors air format and scheduling concerns

CHICAGO — Controversy and confusion were in the air at the 86th International Housewares Exposition, as both buyers and exhibitors expressed concern over the current show format and the shifting slate of competing shows coming up later this year and next.

Many of the 55,000 retailers vendors who gathered at Chicago's McCormick Place April 5-8 were dismayed by the sheer size of the event—the only show to be held this year by the National Housewares Manufacturers Association (NHMA). The short-lived decision last year by the NHMA to abandon its twice-yearly show format forced an all-out single effort by many exhibitors and expanded the show's size significantly, making it more difficult for many buyers to cover the show in three days.

This spring for the first time, the NHMA was forced to expand the show's format into a third building at the giant, rambling exhibit center on Chicago's lakefront. Thus, the number of exhibitors allotted space and the amount of ground to cover made participation in the show an even more formidable task for retailers than in years past.

'Pretty overwhelming'

"I'm confused by the size of this show," said one chain drug buyer in Chicago. "It's all over the place, and it's gotten too big for its own good. I think it could sink under its own weight if they don't change the format."

"It's nice to come and be up on the new trends, but it's pretty overwhelming," agreed Bill Mitton of Regal Distributors, a division of Hy-Vee/Drug Town.

NHMA spokesman Sue Palmore told *Drug Store News*, "We're going to try to keep the show to just the North and East buildings next January, and realign the format to allot just three categories in each building, so there's not so much space to cover."

Buyers and vendors also expressed confusion over the shifting timetable for future shows and the growth in number of shows. The changes began last May, when the NHMA announced its decision to switch to a single annual show beginning in 1987, to be held in January beginning in 1988. The move, based on a poll of NHMA members, opened the doors to new competition as other show organizers announced plans for their own housewares shows to fill the void left by NHMA.

Other shows spring up

The first such event will be the new HouseWorld Expo, slated for Aug. 31 to Sept. 2 this year in Las Vegas. That event, which has already drawn wide interest from vendors, is being hosted by The Interface Group and directed by Ron Fippinger, former NHMA managing director.

Several other show organizers have announced plans to compete with NHMA and host their own shows in New Jersey and New York later this year or in 1988. Meanwhile, the NHMA has reversed its earlier decision and will again move to a two-show-a-year schedule beginning next year. Those shows are scheduled for Jan. 10-13 and July 11-14, 1988.

> *'I can possibly see the need for two electronics shows a year, but the number of housewares shows coming up is ridiculous.'*
> —**Mark Tow,** *Hook Drugs*

Confused and disgruntled

"One housewares show a year is enough, and April is the best time for it," noted Mark Tow, sundries and promotions coordinator for Hook Drugs. "I can possibly see the need for two electronics shows a year, but the number of housewares shows coming up is ridiculous."

Many vendors also expressed displeasure at the timing of next year's shows. Barbara Westfield, Salton director of marketing, called the once-a-year, January format "terrible from a buyer's point of view," since buyers at that time are "in the middle of inventories, and it's hard to assess where you stand and plan for the fall lines at the same time."

Attendance down

Despite the size of this year's show, however, chain drug attendance was down and industry buyers seemed more conservative and cautious than in years past. "Interest from the chains was very light and disappointing as far as buying activity and attendance go," noted Ira Shain, president of Associated Chain Drug Stores. "There's a lot of apprehension about the state of the economy and the growth in competition, and we're not predicting great things for this sales year."

At Associated's membership meeting April 6 in Chicago, Shain noted that drug chains were moving back to basics in their merchandise strategy and "looking at higher-ticket merchandise" at the Housewares Show, with higher profit margins, for their specialty aisles. "Our members are getting away from pots, pans and brooms, which everybody sells, and going for a few upscale, profitable items."

"There are so many items at the show, and it's very hard to pick and choose because we can only carry a few of them," added general merchandise expeditor Tina DiMillo of Wellby Super Drug Stores.

NEWS IN BRIEF

First National sets spending plan

WINDSOR LOCKS, Conn. — First National Supermarkets, completing its first 18 months as a privately held company, announced a four-year capital spending program that involves opening 20 new stores and remodeling selected existing stores.

The new stores will be either combos, superstores or super warehouse stores.

During the past year, First National opened two new combo Finast Super Centers, enlarged its stores in Avon, Conn., and Nantucket, Mass., and bought the four-store IJT Foodtown chain on Long Island, N.Y. The company said it will continue to close smaller, less productive stores and convert those assets into larger stores in its markets.

The company said annual sales are $1.58 billion, up from $1.39 billion when it was bought by management in September 1985.

Revco names sr. merchandise director

TWINSBURG, Ohio — Revco has named Frank Marks a senior executive merchandise director, effective April 1. He was a merchandise manager at F&M Distributors for the past six years.

Marks, 44, will be responsible for categories including consumer electronics, housewares, hardware, audio and video, film, personal care, pets and automotive.

He will report to Philip Carfagno, who is one of two divisional merchandise directors.

Marks began in store management with the S. H. Kress chain and became a senior buyer for Kress and then for Kress's parent, Genesco Corp.

Mass Merchandisers to upgrade DCs

SAN FRANCISCO — Mass Merchandisers Inc., the nonfoods and specialty foods service merchandising subsidiary of McKesson, said it will spend $10.5 million to expand its distribution complex in Harrison, Ark.

The company will add 250,000 sq. ft. to one of three warehouses at the site, consolidate into one master shipping dock, install a conveyor system between warehouses and add parking space. Work on the upgrades started last month and is expected to take one year to complete.

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Vol. 9, No. 9 April 27, 1987

Convenience, value and design inspire product introductions

CHICAGO — A general move by manufacturers toward higher-quality, more innovative products with stylish designs and added features was much in evidence at the International Housewares Show Exposition in early April.

This year, manufacturers have keyed more than ever into demands from time-strapped working couples for products that emphasize convenience, value and space-saving but upscale design.

Thus, retail buyers at the show were wooed with a host of new, compact coffeemakers, automatic-shutoff irons, food processors, miniscule microwaves and personal care product innovations. Among the highlights:

- Oster has rolled out a compact, automatic citrus juicer with its own built-in pitcher, as well as a cool-to-the-touch toaster and a four-cup, quick-heat coffeemaker. Suggested lists for the products are $18.50, $41.95 and $45.95, respectively.
- Wear-Ever/Proctor-Silex is shipping Li'l Drip, the first self-contained, portable drip coffeemaker, for a suggested list of $57.95. Innovative, space-saving drip coffeemakers were also rolled out by Melitta, Braun, Salton and other suppliers.
- Clairol introduced Sensations, a new line of five high-performance hair dryers with contemporary styling, extra features and coordinated, colorful impact packaging.
- From Conair comes Curl Dazzler, a compact hair dryer with a diffuser attachment to dry curly hair without relaxing the curl, a folding handle, and variable speed and temperature settings. New styling innovations for Conair's High Energy line include two-tone coloring, while its Thermacell collection is now tied together with clamshell packaging for easier merchandising.
- Teledyne Water Pik featured its new line of Water Pik dental products, including the Personal System and Family System home dental systems for small and larger households. The new Home Dental Center combines an automatic toothbrush and oral rinse dental system, with four jettips, four brushes and a storage cover, with a suggested list of $77.49.
- North American Philips introduced an expanded line of Longer Life bulbs in response to consumer opinion polls, in a variety of shapes and wattages.
- Rubbermaid rolled out a host of new products in the largest exhibit booth ever featured at the housewares show. Among the new items were Heatables, a line of microwave-to-table cookware; Letter Perfect self-adhesive letters and numbers; see-through utility drawers and storage boxes; in-sink drainers; and colorful, casual dinnerware.
- Cosco unveiled a cross-marketing campaign aimed at new parents. Featured in a tie-in promotion are Cosco's model 116 and 316 child Toilette Trainers and a free attached sample of Borax, the natural mineral household cleaning aid now in the midst of a rejuvenation campaign.
- Lorus was showing new lines of clocks and watches featuring Disney characters, including a Mickey Mouse pop-up alarm clock with a suggested retail of $17.50.

TRENDS

Private label survey suggests tips for retailers

NEW YORK — To take a strong stance in private-label (PL) merchandise, a retailer might start by giving the shopper the opportunity to buy trial sizes of the product, heighten PL signage and show the customer just how similar in composition the PL product is to national brands.

These were three tactics to gain consumer acceptance suggested by the Private Label Manufacturers Association's (PLMA) recent Gallup survey. Sustaining shopper loyalty to PL product lines could be a little more complicated, however, based on survey findings.

More than 75% of consumers surveyed said they were moderately to strongly interested in the availability of store-brand trial sizes. Roughly the same percentage of shoppers said they decided to experiment with other PL products after being satisfied with an initial PL purchase.

One of the consumers questioned was cited as representative of many: "It's always the national brands that let you sample—never the store brands. So you don't ever really have the opportunity to compare, because you've already been conditioned by the national brands."

Quality of store brand items	
73%	Very important
18%	Fairly important
8%	Not important
1%	Don't know
Variety of store brand items	
60%	Very important
25%	Fairly important
15%	Not important
1%	Don't know

While pricing was a key factor when deciding whether to buy a PL product instead of a comparable national brand item—74% rated price as a very important reason why they would choose PL—when they shopped again, 80% said they would reach for a PL product only if it had met their quality expectations.

Other factors influencing the decision to buy PL included "compare-and-save" signage, nutrition/ingredient equivalency signage and the store's satisfaction guarantee.

Nearly half of those surveyed were "strongly interested" in compare-and-save signs, and more than half (54%) similarly rated the importance of nutrition/ingredient information. One of the survey respondents quoted in the PLMA report said, "If it's got the exact same stuff on the label, to me, it's ridiculous to pay more for the national brand."

Fifty-three percent also said the retailer's promise that the PL product was of good quality influenced their decision to take home PL merchandise instead of a national brand item.

Think like manufacturers

The PLMA survey indicated that to keep the customer coming back, retailers should try thinking like manufacturers, viewing all the PL products, from the variety of internal and external sources, as a single brand.

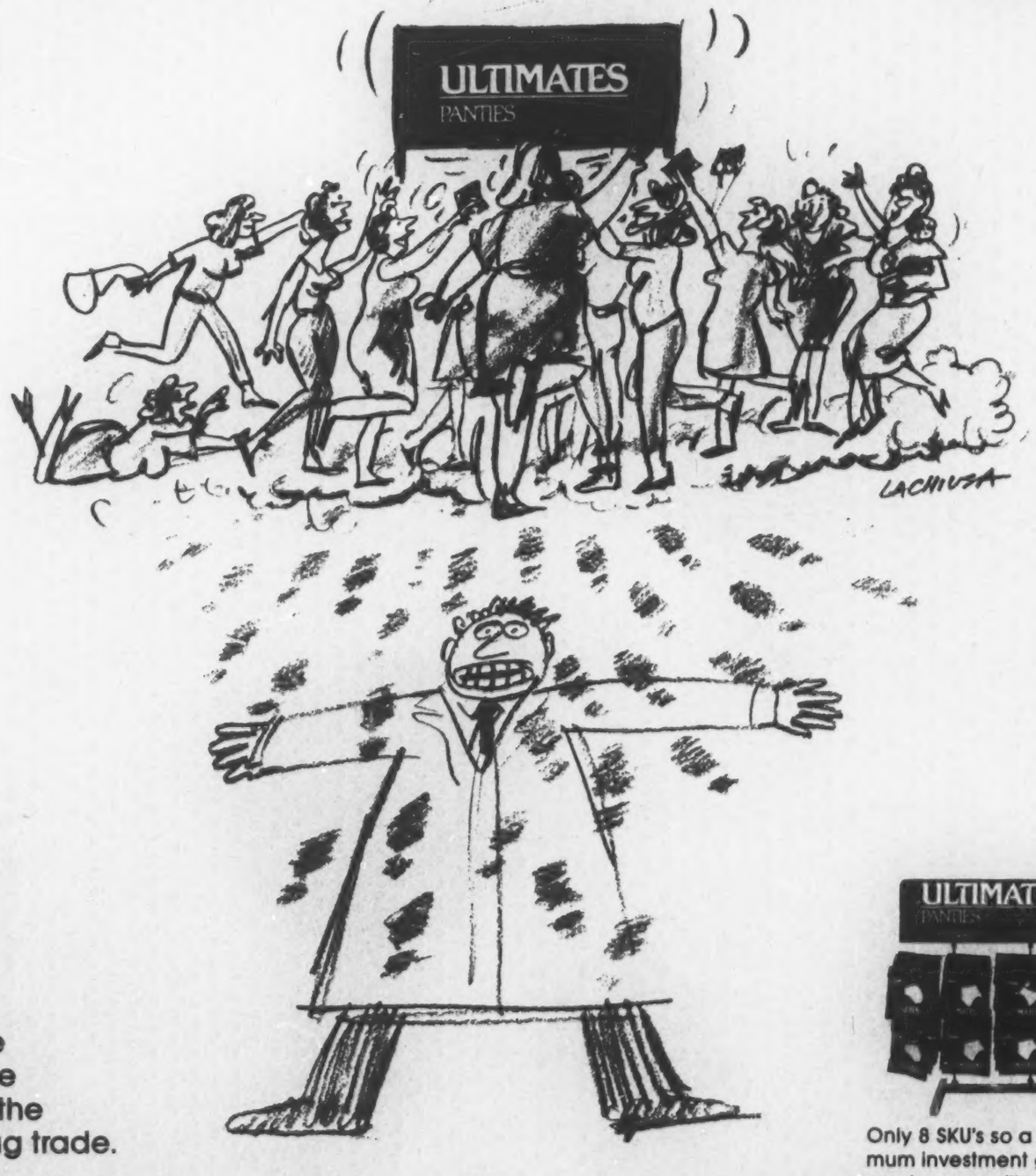
If any individual source doesn't provide a given level of quality, it could represent the weak link in the retailer's entire PL product chain. The survey suggested a shopper is likely to decide not to buy any of the retailer's PL merchandise based on one low-quality product from one bad source, even if the rest of the PL assortment is on par or above the quality of nationally advertised brands. Seventy-seven percent said satisfaction with other store brand items was a "fairly to very important" reason to try another PL line.

The way the customer views the retailer is intrinsically linked with the way he/she thinks about the PL brand. The study stated that consumer trust in the quality of the store brand merchandise is "enhanced" by stressing a quality image.

Compare-and-Save signage	
48%	Strong interest
33%	Moderate interest
16%	No interest
Nutrition/ingredient equivalency signage	
54%	Strong interest
30%	Moderate interest
13%	No interest
Store's guarantee of satisfaction	
53%	Strong interest
29%	Moderate interest
17%	No interest

get ready for the Ultimate

PANTY RAID!



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THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PART TWO

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Drug stores rebuild vital health care image

From coast to coast, in small markets and large, drug chains and independents are chanting the same refrain:

Pharmacy, home health care, OTC, cosmetics, H&BA, rah-rah-rah-rah!

It doesn't quite roll off one's tongue, but the cadence is catchy to drug store retailers who are stepping in and resurrecting a health care image that many had let slip the past few years.

They were chasing general merchandise margins, generally getting beaten at it by other classes of trade and, in some cases, taking their eyes off the ball of core drug store retailing.

General merchandise disadvantage

Drug stores remain at a disadvantage when selling general merchandise, because space constraints mean limited assortments, little fashion, less opportunity to cross-merchandise and, often, less leverage than larger-scale competitors when attempting to buy at quantity discounts.

On top of that, general merchandise sales were hampered since last fall, when automakers caught rebate fever and sucked up much of the nation's disposable dollars on car sales. Consumers will continue to feel those purchases for a while because of debt costs.

"Much attention is paid to government [drug] enforcement efforts. . . . We felt . . . our pharmacists would like to get involved on a personal level."

—Bob Myers
vp-pharmacy, Eckerd

That cut deeply even into the best-laid plans at Dart Drug, for instance, which has to cover extensive interest costs since selling $160 million of bonds in spring 1986. First, low home mortgage rates prompted people to refinance; then they bought cars, which led to a sales dip. That hit the chain after a drought-induced falloff in seasonal lawn and garden sales last spring.

Perry makes changes

That demonstrates the vulnerability of drug stores in general merchandise retailing. A similar lesson came home to roost at Perry, whose net earnings dropped 39% last year after an extended period of solid growth.

Perry's drug store division continued to distance itself from auto supplies and home center products. Perry is no longer building drug/auto/home center stores and in some cases has put up walls in some of the 54 such outlets, to make them side-by-side stores.

Moreover, the chain eliminated marine supplies, sporting goods, live pets and plumbing supplies from its drug store mix.

Even Fay's, which garners 20% of its volume from aggressively promoted general merchandise, has sharpened that effort by emphasizing low-cube, faster turning products.

But the earnings rebound at Fay's is more tied to operational improvements and continued strong prescription business gains. The chain filled 8.3 million scripts in fiscal 1987, compared with 7.47 million a year earlier. Its stores average 1,100 scripts per week.

Health care image

More aggressive marketing of pharmacy is commonplace, as drug chains recede to what they know best: the business of health care. They're taking advantage of high consumer regard for pharmacists, who are at once the chain's image makers and the costliest store-level employees around.

While chains pump money into marketing them—through revamped store layouts that make prescription counters more visible, redesigned consultation areas that make customers more comfortable, more prominence in advertising and the support of pharmacy computers—they are also being made more productive.

Pharmacy computer advances

Advances in pharmacy computers enable pharmacists to compete more effectively for third-party business, update constantly changing drug costs and analyze sales data. Patient-related benefits include drug interaction warnings and individual prescription histories.

Walgreens and SupeRx, both well-equipped chains, advertise the protective benefits of their pharmacy computers regularly.

Rite Aid, which has so far equipped 825 stores with Rx computers and continues to roll them out, is taking its pharmacy computer capabilities one step further. It is joining Walgreens and Thrift in mail-order pharmacy.

Dave Dalton, vp and director of professional relations, told *Drug Store News* that its Rx USA unit is equipped to keep patient profiles, alert patients to possible drug interactions and provide drug utilization reviews, "which meets cost containment concerns of third-party payers."

Despite the red tape and lower margins involved in third-party script filling, drug stores have to chase the business or lose share to competitors who do: HMOs, PPOs, combination stores and deep discount operators scratching for pieces of drug store business.

Chains are fighting back—both with subtle image-casting efforts and blatant competitive tactics.

Fighting back

Eckerd, for example, developed a program with an adolescent drug education group called PRIDE to help parents better understand the threat drug abuse poses to their children and how to deal with it. Radio public service announcements, brochures, posters and films are part of the program. In addition, Eckerd pharmacists are speaking to parents at civic meetings through-

Continued on page 133

Video booming for earlybirds

One general merchandise category that is booming at the chains which got into it early is video rentals.

Rite Aid is pushing forward with its plans to become the nation's No. 1 video rental service. The chain has already poured about $50 million into equipping 1,000 stores with 1,050 titles each, and is eying about 1,200 stores total.

Wellby in Portland, Me., Longs in California and Douglas Drug in Rhode Island remain committed to the business they entered several years ago.

Recent entry Walgreens, which began testing rentals in some stores in 1986, will add "selectively" in 1987.

For most recent entrants, however, video rentals haven't delivered because of the high investment and high risk involved in obtaining titles. By the time they got in, rental discounting grew rampant, and the rewards didn't justify the risk.

This past January, however, the entrenched Rite Aid chain raised its one-day rental rate to $1.19 from 99¢, still far below the $1.99 rates of many mom-and-pop independent video shops. Customers didn't balk, so Rite Aid succeeded in its attempt to lift prices and margins on a category that brings a shopper to the store twice for each rental.

Smaller scale: Lewis

On a smaller scale, Lewis Drugs in South Dakota is experiencing 15%-plus annual growth in video rentals. Lewis owns its inventory of 1,200 titles per store.

The chain was in the thick of the "Top Gun" fanfare last month, when the adventure film quickly shot into the sales stratosphere as the fastest-selling video ever. Lewis sold 1,200 tapes in seven days at $18.88 apiece, well below the studio's suggested retail of $26.95. It also gave away free Pepsi during the week.

President Mark Griffin said that over the next few weeks, Lewis will discount its inventory of 300 rental copies of "Top Gun" to clear them out at less than $10 retail.

Breakout of 1986 chain drug sales

Department	Total chain drug $ volume	% of increase/ decrease	% of total sales	% Gross margins	Average turns
Prescriptions	$8,473,944,000	10.50%	28.05	35-40	6.5
OTC/proprietaries	4,467,880,000	9.33	14.79	30-35	5.0
Toiletries	3,229,640,000	5.98	10.69	25-30	5.0
Cosmetics	1,605,117,000	8.38	5.31	35-40	2.2
Stationery	1,486,149,000	10.07	4.93	40-45	4.5
Tobacco	2,204,820,000	3.64	7.30	15-20	15.0
Candy	1,067,082,000	9.67	3.53	25-30	7.5
Housewares	2,002,672,000	2.84	6.63	35-45	3.0
Toys	886,764,000	– 1.84	2.28	35-40	4.0
Photo/video	1,294,063,000	4.75	4.28	20-25	9.0
Seasonal merchandise	1,219,911,000	3.40	4.04	35-45	5.0
Do-it-yourself	399,957,000	– 5.78	1.32	35-45	3.0
Greeting cards	1,000,000,000	3.00	3.31	45-50	4.0
Promotional and miscellaneous	745,268,000	2.88	2.47	15-20	NA

Source: 1987 *Drug Store News* chain drug survey

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Chains mobilize to compete against other trades

Continued from page 131

out the chain's 15-state market area.

Bob Myers, vp-pharmacy services at Eckerd, said: "Much attention is paid to government enforcement efforts. . . . We felt many of our pharmacists would like to get involved on a personal level."

Perry Drug developed an antialcohol abuse campaign and gave away buttons at stores, which read, "ID is no minor thing."

McKesson Corp. and the San Francisco 49ers gave $40,000 in grants to educate sixth-graders in a San Francisco school district about the realities of drug use.

The McKesson Foundation and its Valu-Rite cooperative funded the "Just Say No" handbook, distributed by the national Just Say No foundation.

Peoples, Harco and Happy Harry's are stepping up their home health care merchandising efforts.

Some Medicine Shoppe stores, which are small apothecary-type units, bring in outside physicians, who volunteer to conduct free medical screenings on a monthly basis.

And Eckerd expects to distribute two million free colon cancer screening kits over the next two years.

These outreach efforts help position drug stores as more than willing takers of consumer health care dollars. They become active participants in the health and welfare of the markets they serve.

Newer retail forms

Meantime, drug chains are developing strategies to compete head-on against newer retail forms.

Rite Aid, for example, locates its Drug Palace deep discount stores against other deep discounters in a market. About a dozen of its 187 recently acquired stores in Florida will be Drug Palaces. The defensive approach protects its conventional stores and diminishes the impact of a competing deep discounter.

In Delaware, Happy Harry's competes against sharp-pricer Pathmark, Acme, Eckerd and Rite Aid and claims to have the highest drug share by outstoring the others.

Besides positioning itself as "Delaware's own" hometown favorite, the 19-store chain relies heavily on its ability "to generally be first in the market with new products," said vp-merchandising Pat Triboletti.

"We're beating them [larger chains] on the shelves because we're smaller. . . . We can have new products on our shelves within three to four days."

—Pat Triboletti
vp-merchandising, Happy Harry's

"We're beating them on the shelves because we're smaller, we can decide quicker and get in and out of products faster. Even if we get delivery the same time as our competitors, we can have new products on our shelves within three to four days," Triboletti said.

"We don't have a choice but to give new items reasonably good shelf location because customers look for them and vendor advertising is usually good. More than a quarter of H&BA sales are generated by products that are less than one year old. It's more important to be first with them than, say, two years ago, because of increased competition," Triboletti said.

Commitment to pharmacy

In the Washington, D.C., market, however, Giant Foods and Safeway show a strong commitment to pharmacy. Prescription counters are in more than half their stores and will be placed in new and remodeled stores where leases don't restrict them. They are cutting into drug store H&BA sales as well because they have expanded assortments to meet the convenience needs of shoppers.

The three major drug chains in this market—Peoples, Gray Drug Fair and Dart—are each contending with internal problems and changes and haven't been able to stem inroads by the supermarkets.

The most visible attempt to raise share and customer loyalty was the image remake campaign by Dart. From mid-November through the end of January, Dart aired 30-second institutional spots 20 times a day, seven days a week over five television stations covering the D.C. market. Dart also ran full-page image ads in the *Washington Post*.

Meantime, in upstate New York, where Freddy's deep discount stores and the Wegman's supermarket powerhouse set the price tone, Owl Drug Stores creates a distinctive niche with home health care selections in every store that are supported by a separate freestanding unit.

Moreover, Owl chips away at fill-in food visits by merchandising 2,000- to 3,000-sq.-ft. convenience food departments in six of its eight stores.

In Sioux Falls, S.D., Lewis Drugs competes against K mart and Target, which have pharmacies. A new mall will add 300,000 sq. ft. of retail space and extra competition soon. "We anticipate a glut of footage,' said Mark Griffin, president of the six-store chain.

He romances the hometown factor. "It's more important to people today. There's some amount of suspicion of mega-chains, particularly in rural Midwestern communities," he noted.

Griffin, whose chain captures two-thirds of its 70,000 sku's per store on scanning, said that industry efforts to tighten operations and gain efficiencies have a limited benefit: "We can get so much blood out of a rock. We have to look at our merchandise."

To create in-store excitement, he works to be the first out with new products.

Lewis also has free sampling of consumables, food preparation demos, and free makeovers with cosmeticians.

Using his market as a microcosm, he observed that major chains moving into smaller trading areas, which they wouldn't have considered even a few years ago, will find them surprisingly saturated. "This is the Great Plains, not Manhattan," he joked.

10-year sales trends

(in millions $)
(1985 base equals 100. 1986 equals 107.2)

	1977	1978	1979	1980	1981	1982*	1983	1984	1985	1986
Rx	$2,470	$3,073	$3,476	$3,983	$4,612	$5,105	$5,927	$6,733	$7,669	$8,475
OTC/proprietaries	1,531	1,730	1,964	2,235	2,575	2,879	3,201	3,595	4,087	4,468
Toiletries	1,169	1,317	1,484	1,726	2,020	2,271	2,457	2,742	3,047	3,230
Cosmetics	515	604	708	831	976	1,107	1,205	1,352	1,481	1,605
Stationery	547	614	689	779	888	987	1,059	1,199	1,352	1,488
Tobacco	973	1,089	1,219	1,354	1,518	1,702	1,806	1,979	2,127	2,205
Candy	500	533	568	607	674	753	793	892	973	1,067
Housewares	706	806	920	1,065	1,236	1,389	1,497	1,606	1,676	2,003
Toys	335	370	408	464	533	598	632	672	701	690
Photo/video	448	511	587	680	791	891	1,001	1,114	1,235	1,294
General merchandise	588	673	771	883	1,035	1,146	1,227	1,337	1,416	1,212
Do-it-yourself	191	205	237	275	319	356	396	420	425	400
Grocery and liquor	467	549	645	780	934	1,060	1,123	1,209	1,280	1,335
Promotional and miscellaneous	351	366	382	478	562	579	589	657	724	745

*Calender 1982 and prior year figures retated to reflect-change in definition of chains from two or more to four or more stores.
Drug Store News established calendar 1985 as base year equaling 100. Merchandise growth shown in future census issues will reflect this index.
Source: 1987 *Drug Store News* chain drug survey

Health screening program launch

ST. LOUIS — Medicare-Glaser is embarking this month on a broad-based community health screening program that involves the chain's 63 pharmacies and full-line drug stores and six hospitals here.

The Health Watch program gives people equal access to testing and information on: cancer risks, mammographies, cholesterol screenings, stress evaluations, hearing screenings for children, visual acuity, scoliosis screenings for children, osteoporosis risk profile, cardiovascular risk analysis and colorectal screening.

Tests will be given free or at nominal charges and generally do not require appointments.

People will be able to be tested during the third and fourth weeks of each month at selected Medicare-Glaser pharmacies and drug stores in the metro area. Times, locations and specific screenings will be announced through newspaper ads, in-store signage and fliers.

Harlan Steinbaum, president and chairman of Medicare-Glaser, said the program is "a viable alternative to mobile screenings." He called it "the first and only community outreach program of its kind."

In addition to this new effort, Medicare-Glaser continues to offer daily blood pressure and diabetes screening at designated locations.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Prescription drug sales soar in year of ferment

The year 1986 was one of growth for branded and generic prescription drugs, but it was also a year that both came under fire as being excessively expensive.

Some of that growth was reflected in chain drug store prescription sales, which jumped 10.5% to a record high of nearly $8.5 billion. Prescriptions accounted for 28% of total store sales, the highest among all the merchandise categories and almost double the second-highest moneymaking category, OTC Proprietaries.

It was also a year that pharmacists won some battles on the prescription front.

In Florida, pharmacists began prescribing prescription drugs from a limited formulary. While the idea has not caught on around the country as some believed it would, it did open opportunities for pharmacists that did not exist a year before.

But some pharmacists found themselves in the thick of battle against groups that were once allies: physicians, HMOs and third-party prescription programs.

Proliferation of MD dispensing

Pharmacists in some parts of the country are witnessing a proliferation of physicians dispensing prescription drugs, a condition that can have, and—depending on location—is having catastrophic effects on prescription drug business.

In addition, pharmacists saw HMO's and other third-party providers, once dependent on local pharmacies to service their customers, turn their backs on them by signing exclusive contracts with one or two major independents and drug chains. If the trend is to continue, it will undoubtedly have a profound effect on how drug stores conduct their business in the future.

But on the positive side of the business, 1986 was a good year for new drug introductions.

Pharmacists saw a surge of new prescription product introductions as the amount of branded drugs launched in 1986 jumped 20% over the previous year and a whopping 60% over 1984 product launches.

Drug launches last year clearly marked the beginning of a new era in drug development, as more than 15% of those products were for biotechnology drugs.

Among the four biotech drugs launched were two interferon drugs (manufactured by Roche and Schering), for the treatment of hairy cell leukemia; a hepatitis vaccine (Merck); and an antibody (Ortho) to block the rejection of kidney transplants.

"The approval of four [biotechnology] products in a single year signals the movement of medical biotechnology at long last from the laboratory to the treatment center—surely one of the significant events of our time," commented Gerald J. Mossinghoff, president of the Pharmaceutical Manufacturers Association.

F.D.A. approvals

The F.D.A. also approved 14 additional drugs that had not been launched by the end of 1986.

Those with projected marketing dates of the first quarter of 1987 include Enkaid, an antiarrhythmic (Bristol-Myers); Provocholine, a bronchoconstrictor/diagnostic (Roche); Recombivax HB, a biological/vaccine (Merck); Technescan-HIDA, a diagnostic (Mallinckrodt); Alfenta, a narcotic analgesic (Janssen); Azactam, an anti-infective/antibiotic (Squibb); Ocufen, an inhibitor of intraoperative miosis (Allergan); and Brevibloc, a cardiovascular/beta blocker (Dupont Critical Care).

Last year was also the best year for generic drugs as a greater number of cost-conscious third-party programs spread their tentacles into more drug stores and more brand-name drugs came off patent.

Generic drug sales soared from $800 million in the previous year to an estimated $1.2 billion.

Generic growth rate

Projections from analysts who track that industry say that the rate of growth for generics was more than twice that of the entire pharmaceutical industry and that sales could push over the $3 billion mark by the end of the century.

But both branded and generic manufacturers did not leave 1986 unscathed by critics, who said that prices in both areas were too high.

A congressional subcommittee, spearheaded by Rep. Henry Waxman, announced hearings on the coattails of last year's sharp, near-double-digit rise in the cost of prescription medicines.

According to a report released by the U.S. Departmment of Labor, Bureau of Labor Statistics, retail prescription drugs rose 9% during 1986 (with some prescription drug categories as high as 13.2%), higher than the national average of 7.7% for overall medical care in the U.S. The report showed that, entering 1987, those prices are still on the rise.

The same report revealed that not only did drug prices rise dramatically at retail, but manufacturer prescription drug prices climbed even higher at 9.8% (with some individual drug categories climbing as high as 13.3%).

'Carte blanche' for manufacturers

Some industry observers pointed to extended patent life of selected branded drugs as a result of the 1984 "Waxman/Hatch" amendments as a carte blanche for manufacturers to raise prices.

Others said that another provision of that law which allows generics to come to market sooner should equally share the blame for higher drug prices. The assumption is that branded manufacturers are raising prices on those drugs that are protected by patents.

While generics seemed to enjoy a year of unparalleled prosperity, a controversial article that appeared in the *Journal of the American Medical Association* claimed that drug stores tend to mark up generics more than brand drugs, in both percent and dollars.

According to the article's author, Bernard S. Bloom of the University of Pennsylvania, many state laws do not obligate pharmacists to pass savings along to the customer. In many instances exemplified in the article, savings when buying generics are not realized by the consumer, and in isolated examples, generics can sometimes cost more than the branded drug.

Prescription department summary

All drug stores

	1985	1986	% change
Consumer sales ($ millions)	$19,902	$21,693	+ 9.0%
Scripts (millions)	1,557	1,554	– 0.2
Average Rx price	11.62	13.93	+20.0
Scripts/store/year	29,657	29,432	– 0.7
Stores	52,500	52,800	+ 0.5
Chain drug stores			
Consumer sales ($ millions)	7,669	8,474	+10.5%
Scripts (millions)	634	659	+ 4.0
Average Rx price	12.09	12.89	+ 7.0
Scripts/store/year	34,178	33,948	– 0.7
Stores	18,550	19,412	+ 5.0

Source: *Drug Store News* Survey

1986 U.S. retail prescription sales of top 10 products
(at acquisition cost)

Rank	Product	Company
1	Tagamet	SKF
2	Zantac	Glaxo
3	Dyazide	SKF
4	Naprosyn	Syntex
5	Tenormin	Stuart
6	Inderal	Ayerst
7	Keflex	Dista
8	Procardia	Pfizer
9	Feldene	Pfizer
10	Cardizem	Marion

Source: Pharmaceutical Data Services

This Peoples pharmacy reflects several concurrent trends in merchandising the prescription counter: a step-down consultation area, an emphasis on generic drugs and home health care booklets.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Changes on the horizon for home health care

Home health care seems like a sure bet. Aging of the populace and the government's push to contain medical costs lead to home health care as a preferred alternative for more people.

In addition, many consumers prefer to convalesce at home. Home health care seems to be where the desires of the government and the public meet.

The prognosis for this business is good, but drug stores which have home health care departments or centers do not always find profitability high. Increasing competition and the vagaries of Medicare reimbursement have caused that.

"The average profitability in the DME [durable medical equipment] industry has been roughly cut in half in the past two years," said Michael Hamilton, president of Diversified Medical Management, a Birmingham, Ala., consulting firm.

The forces of competition and cost containment have shrunk pretax profit margins from 25% to 30% two years ago to 12% to 15% today, according to Hamilton.

With Medicare accounting for $4 billion to $5 billion or 50% to 70% of the durable medical goods market, drug stores find themselves suitors of the Medicare system.

It became clearer in 1986 that it's "more and more difficult to get paid on a predictable basis for services rendered to a Medicare beneficiary," Hamilton said.

Hamilton expects that Congress will adopt several changes in Medicare reimbursement that will affect DME dealers when it passes the budget this year.

Major changes expected

One of the major changes might be the reduction in the number of carriers which process Medicare claims under contract for the government. Hamilton said the government currently uses 53 carriers and there is a proposal to reduce that number to 10, one per region.

"That would reduce the number of interpretations and all dealers who do business across state lines would be happy to see that," he added.

Oxygen supplies account for a large proportion of DME reimbursements from Medicare. Hamilton anticipates that there may be some rules changes in that area. Not long ago, the government tightened the rules on who is eligible for oxygen services, based on blood test results. One proposal is for Medicare to reimburse only oxygen consumption, instead of equipment.

While it's impossible to tell if the changes will benefit the DME supplier, Hamilton believes that they will result in more stability.

"It will make the rules we live under more predictable and less volatile," Hamilton said.

Another development, Hamilton said, is that the government may be launching pilot projects to test the feasibility of competitive bidding for DME.

Kevin Marvelle, deputy project director for Abt Associates, which is proposing to design the pilot project for the government, said that competitive bidding for DME will be tested in six locations and will include bidding for charges, as well as method of reimbursement.

However, Hamilton believes competitive bidding for DME is "too complicated."

Elderly patients (chiefly with cancer, arthritis, strokes, ambulatory problems and other ailments)	30%-40%
Injured patients (chiefly with wounds, fractures, burns)	20%-30%
Postoperative patients (chiefly with surgical wounds and related problems)	15%-25%
Ostomates	10%-20%
Chronic disease patients (nonelderly, with diseases such as diabetes, multiple sclerosis, muscular dystrophy and cerebral palsy)	5%-15%
Sports/athletic participants	5%-10%
Other customers	5%-10%

Special attention, information key

The home health care customer mix "varies widely," but "persons over 65 predominate. They typically account for over 35% of all medications purchased and use more home health care products than any other group," according to Johnson & Johnson's *Home Health Care Marketing Manual for Retail Pharmacies*.

Retailers can maximize home health care sales by giving these consumers "special attention and information on the full range of home health care products and services available, even if they currently patronize the pharmacy only for medications," J&J advises. "Bag stuffers, supplemented with the building of personal rapport," help establish a particular pharmacy in the customer's mind as an outlet for his home health care needs.

According to the manual, about "seven out of every 10 patients come to the pharmacy on the basis of referrals from health care practitioners, chiefly nursing services and other home health care agencies, hospital personnel and physicians, surgeons and therapists. The other 30% come as a result of advertising and referrals from other customers."

A drug store can increase the number of home health care customers it attracts through customer referrals in several ways, including having professionally trained sales personnel. These trained salespeople will result in "well satisfied present customers," who are more likely to refer others, the manual says.

Freestanding units cater to patients

Chains such as the Hook division of Hook SupeRx, People and Perry Drug have led the way in developing freestanding stores—"home health care centers" designed to offer one-stop shopping convenience to customers, including hospitals and HMOs. Harco and Begley are leaders among the smaller chains, with strings of freestanding units catering to most home care needs.

Perry acquired another freestanding home health care center in 1986, bringing its total to nine freestanding and home health care centers within Perry drug stores, according to Dennis Belevender, director of purchasing for Perry Comfort Care.

Perry has one joint venture with a hospital and affiliations with a few nursing associations.

"Even a hospital with 400 to 500 beds discharges 10 to 15 people per day," Belevender said.

He noted that discharge planners in hospitals have a lot of influence on where patients purchase their equipment. He also noted that nursing groups which care for patients in the home are "very price conscious" and tend to shop for the best price.

The solution Perry has found to be Medicare problem is to require a complete and detailed letter from the physician to ensure reimbursement. A scribbled note on a prescription form is not enough, Belevender said.

In many ways, home health care departments within drug stores have the advantage over freestanding centers, according to Belevender, because "you can acquire walk-in business." Customers of freestanding centers only shop there with a purpose. Belevender says Perry's strategy on freestanding centers is to acquire established businesses rather than start from scratch.

"A lot of small companies are looking to get out from under," said Belevender.

The drug store environment is also ideal for the smaller pick-up items such as incontinence products and post-surgical wound care supplies, which have proven to be good sellers for drug stores in the last year.

Ostomy products produce sales

Ostomy products are also a reliable line of products.

"Once you have an ostomy clientele built up, they come in every month to pick up supplies, like clockwork," Belevender said.

With patients being discharged "quicker and sicker" from hospitals, the home health care business is showing an increasing "awareness and interest in providing the more complicated services such as parenteral and enteral feeding, IV and respiratory equipment," Michael Hamilton, president of Diversified Medical Management, a Birmingham, Ala., consulting firm, said.

Belevender said Perry is carrying increasingly sophisticated items, such as CPMs (Continuous Passive Motion), which flex patients' muscles while bedridden, making rehabilitation much easier once the patient is able to get out of bed. The patient's legs are connected to a motor and the amount of flexion desired is set and the muscles are worked.

Another item is called an apnia monitor, which is used by mothers of infants considered at high-risk for sudden infant death syndrome.

Independent drug stores often use home health to create a market niche. One recent development is for DME suppliers to contract with state PSAOs to form a chain of independent outlets for their products.

Franchisees successful

Hamilton said independents who have been most successful with home health care are franchisees to home health care suppliers such as ConvaCare. The franchisers offer "excellent training programs" for personnel who can be critical to the success of a home health care business, Hamilton said.

"A drug store's ability to succeed in the business is related to its commitment to train personnel and to provide a high level of service to customers," said Hamilton. "If you just take the attitude that you're going to dabble in the business, you are not going to do well."

Belevender agrees that service is the linchpin to success.

"It's a service business and you'd better offer damned good service. You have to be there for the customer. If you don't make it to the customer's house to fix a wheel for two days, and that customer complains to his or her doctor, who happens to be the chief of staff at the local hospital, you can bet the doctor will make some comments at his next staff meeting," Belevender said.

Home health care may have once been a sideline that didn't need much tending, but that's no longer the case.

"It's not as profitable as it used to be," Hamilton said. "It's more difficult to get into and it's more difficult to get your market share."

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Many categories contribute to OTC sales strength

Despite a year in which retailers complained of the continual erosion of OTC sales by increased nontraditional drug store competition, OTC/proprietary department sales for chain drug stores managed to show a 9.3% gain, to $4.5 million.

The OTC department remains the No. 2 sales category, representing nearly 15% of total chain store sales.

The upsurge of OTC sales came from several product categories, but it was especially fueled by perennial sales of cough and cold products, the introduction of several new ibuprofen products, an expanded base of contact lens wearers using an increased number of solutions, and an active year for condom sales spurred by the spread of sexually transmitted diseases and AIDS.

Cough/cold still reigns

According to *Drug Store News'* 1986 study of the 100 best-selling OTCs, cough and cold products took the lion's share of OTC product movement. Based on number of units, cough and cold products represented 25% of all OTC products moved through chain drug store checkouts.

As part of the overall OTC department, all sku's (tablets, capsules, liquids and lozenges) of cough and cold products accounted for about 15% of OTC department sales and had a total increase of approximately 14% over the year before.

Playing a major role in cough and cold product sales were numerous Rx-to-OTC switched products. According to the study, almost half (44%) of the products in that category were switched products.

Ibuprofen a factor

Another product area that contributed to growing OTC sales were the analgesics. Overall, analgesic sales enjoyed a healthy increase in sales over last year. Most retailers believe that the 16% increase was brought on by the increased number of new ibuprofen products brought to market in 1986.

Although Tylenol products continued to hold a commanding niche in 1986, with more than half (53%) of those products in the top 100 OTC listing, the introduction of several new ibuprofen products is expected to steal some of the nation's $1.6 billion analgesic product pie. Drug stores grab nearly half a billion dollars of that.

Already showing signs of suffering from the success of the ibuprofens were aspirin-containing analgesics such as Bayer Aspirin.

Bayer aspirin 100s, the 1985 OTC analgesic leader, dropped to second place last year within that category and to 10th position in the top 100 OTC listing (based on number of units). A similar fate befell Anacin tablets 100s.

In 1985, Anacin tablets 100s were the second-best seller within the analgesic category, but slipped to seventh place among analgesics and settled in as the 21st best-selling OTC in the top 100 list (based on unit sales).

It is also believed that ibuprofen will fill a gap left by several analgesic manufacturers in treating menstrual pain. According to some analysts, the menstrual pain product market, currently about $175 million in yearly sales, is expected to continue its 10% annual growth rate. Several manufacturers have either brought out products with menstrual pain indications or plan to do so in the near future. It is expected that these products will further erode aspirin and Tylenol sales.

Eye care a sure bet

One OTC category that is a sure bet to continue growing is eye care, particularly contact lens solutions.

As new lenses are brought to market, new solutions will be developed to handle their care. Last year alone, sales in this category topped $200 million, a whopping 16% gain over the year before.

Condom sales strong

But one area of growth that took most retailers by surprise toward the end of 1986 was family planning. Unfortunately, while sales for family

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1986 Proprietaries department productivity

Category	Total sales (add 000)	% of increase	% of sales
Analgesics	$ 488,973	16.33%	10.83%
Vitamins/nutritionals	449,088	8.35	10.05
Cough/cold (Tablets/caps/loz.)	417,152	14.67	9.34
Cough/cold (Liquids)	279,225	13.88	6.25
Antacids	251,488	4.31	5.63
Laxatives	273,538	4.36	6.12
Diet aids	109,708	6.89	2.46
Eye care/lens care	209,575	16.49	4.69
Asthma inhalers/analgesics	14,901	1.28	0.33
First aid products	250,689	6.32	5.61
Skin & Shave	29,459	0.74	0.66
Feminine hygiene	224,422	6.99	5.02
Family planning	200,542	13.54	4.49
Acne preparations	72,228	2.95	1.62
Smoking aids	31,197	1.89	0.70
Antidiarrheal/antinausea	74,593	4.29	1.67
Dental care	448,018	10.44	10.03
Baby needs	368,430	4.81	8.25
Feminine products	172,504	3.26	3.86
Home health care	69,465	8.41	1.55
Miscellaneous	37,637	5.52	0.84
Total	$4,467,880		100%

1986 OTC/proprietaries department highlights

Chain drug OTC/proprietaries sales	$4,467,880,000
Percentage of total chain drug sales	14.79%
Industry profit yield from OTC/proprietaries last year	$1,340,364,000 to $1,563,758,000
Average annual department turns	5.0

OTC proprietaries continued to do well in chain drug stores, despite a continuing erosion of sales. OTC sales last year increased 9.3% from the previous year, to an all-time high of $4.5 billion.

A new entry into the OTC vitamin/nutritional category was fish oil supplements. Some retailers are projecting that the new category could reach as high as $200 million by the end of this year.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Many categories contribute to OTC sales gain

Continued from page 141

planning products such as contraceptive gels made no headlines, sales for condoms did, as America came to grips with spreading sexually transmitted diseases (STDs) and the deadly disease, AIDS.

The growth in sales of family planning products is reflected by a nearly 14% increase over the year before—when public information about STDs and AIDS was not as widespread.

According to sources at Planned Parenthood, more than $1 billion is spent on birth control in the United States yearly. But not all family planning sales are for contraception. Many buy products in this section for the prevention of sexually transmitted diseases.

There were 1.8 million new cases of gonorrhea, 500,000 new cases of genital herpes and 90,000 new cases of syphilis in the nation in 1985. In addition, more than three million new cases of chlamydia, a bacterial infection that can cause infertility, were reported.

Family planning sales at the chains hit an all-time high last year, reaching more than $200 million, with much of that being credited to the sale of condoms.

The remarkable comeback of condoms was also evident at headquarters buying levels.

"The condom market is going through the ceiling. It was one of our high growth categories last year," commented one buyer for a large drug chain.

Industry leaders predict that by the end of this year alone, condom sales will reach as high as $250 million, with many predicting it will surpass that figure.

Growth for condoms is expected to be 20% this year, as the demand for a safe, simple means of preventing AIDS will be uppermost in consumers' minds.

Although not reflected in this year's annual report figures, the vitamins-/nutritional category also received an unexpected boost toward the end of 1986 when a report published in the *New England Journal of Medicine* suggested that certain fish oils could lower cholesterol.

Soon after the report was published, the floodgates opened and out came scores of fish oil supplement products. First out of the gate, and ahead of the big rush, was R. P. Scherer Corp., which had been producing MaxEPA fish oil supplements for private labelers since 1982. In addition, Squibb and Warner-Lambert launched all-out campaigns for their versions, Protrochol and Promega, respectively. It is estimated that the print campaigns helped boost 1986 sales of fish oil supplements to $30 million.

Projections for 1987 range from $100 million to $200 million, depending on the source. According to a source at Squibb, the supplements could do better than calcium and fiber supplements, two very hot categories.

Top 10 OTC products ranked

	Unit sales	Dollar sales	Gross profit dollars
1	Fleet Enema regular	Tylenol extra-strength caps, 50s	Os-Cal 500mg tablets, 60s
2	Chap Stick	B&L Sensitive Eyes Saline, 12 oz.	Centrum tabs, 100+30
3	B&L Sensitive Eyes saline, 12 oz.	Nyquil, 6 oz.	Mylanta liquid, 12 oz.
4	Nyquil, 6 oz.	Tylenol extra-strength tabs, 60s	Tylenol extra-strength caplets, 50s
5	Robitussin DM, 4 oz.	Actifed tabs, 24s	Os-Cal 250mg tablets, 100s
7	Tylenol extra-strength caps, 50s	Nyquil, 10 oz.	B&L Sensitive Eyes Saline, 12 oz.
8	Actifed tabs, 12s	Robitussin DM, 4 oz.	Slim Fast powder choc., 16 oz.
9	Mylanta liquid, 12 oz.	Slim Fast powder choc., 16 oz.	Actifed tabs, 24s
10	Bayer aspirin, 100s	Advil tabs, 50s	Nyquil, 10 oz.

Although Tylenol and Anacin tablets continued to hold a niche in the OTC analgesics category, retailers fear that their sales will be cut because of newly introduced ibuprofen products.

Commerce Dept.: OTC market to grow

WASHINGTON — The over-the-counter drug market will expand by 4.5% in 1987 to reach $7.1 billion, and government forecasters anticipate a continued growth of about 4% a year until at least 1991.

Much of this year's projected growth in OTC drugs will come from mergers of major proprietary pharmaceuticals corporations and the increased availability of home diagnostic test kits, according to the Commerce Department's newly released *Industrial Outlook*.

Similarly, long-term expansion forecasts for the nonprescription drug market are being backed up by government predictions that more "exciting new products" will make the switch from prescription to nonprescription status.

"Other reasons for the growth in such sales are the costs of professional medical care, greater public knowledge and the availability of nonprescription drugs. Self-medication is fast becoming a characteristic of a better-educated society," the Commerce Department economists said.

Vitamins comeback

Contributing to the expansion in the non-Rx market will be the rebirth in popularity of vitamins and minerals. The vitamin market has grown "very little" for the past several years, according to the government researchers, who predict that over the next five years sales of both products will increase.

"The reason for this optimism is the increase in both the very young and the elderly population groups, the greatest consumers of vitamins and minerals. Also, increasingly strong evidence suggests that vitamins A and E and beta-carotene may halt the activity of free radicals, molecules that can lead to cancer," they said.

2.2% rise forecast

During 1987, the Commerce Department forecasters call for a 2.2% (not including inflation) rise in the value of manufacturer product shipments of all "pharmaceutical preparations" (including OTC drugs) from a total estimated value of $24.6 billion in 1986.

Although pharmaceutical preparations shipments are expected to grow "at an annual rate of about 3% through 1991 [after adjusting for price change]," this rate is not as large as previously anticipated. One reason for this, according to the government economists, is that "fewer unique products are expected to reach the market."

The newly released statistics also show that the average price of drugs and pharmaceuticals for 1986 rose only 4.3%, compared with average annual price increases of 5.5% since 1982.

Profit margin erosion

Furthermore, government researchers indicate that, similar to previous years, not all of the higher drug prices are going toward manufacturer profits. In 1986, the industry's average aftertax profit as a percentage of sales was 12.3%, which is about 5% lower than in previous years.

"Although measures taken by the industry to maintain profitability in the face of increasing numbers of generic products and the higher cost of developing new chemical entities have helped, there has been some erosion of profit margins," according to the report.

Much of the price hikes is needed to fund research and development, which last year cost the industry an estimated $4.7 billion—up by 14.5% over 1985 levels.

Pooling resources

However, R&D costs may not take such a chunk out of manufacturers' pockets in the future, according to the Commerce Department report, which predicts that during the next five years, more pharmaceutical companies will start to pool their resources and costs and collaborate on the development of new products.

In addition, "One source of savings could be international acceptance of a single test portfolio concerning clinicals and other studies required for approval of new drugs in major industrial countries," they said.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Hair and skin care items led toiletries' '86 growth

The sales of toiletries like hair, skin and body care products rose 6% in chain drug stores in 1986 to a total of $3.23 billion.

The growth areas were styling aids, particularly gels and other holding products, up 9% to $58.6 million; hair sprays, up 12.5% to $128.3 million; men's toiletries, up 9% to $362.9 million; and shaving preps up 15% to $51.2 million.

Hand and facial skin creams also did rather well in 1986, climbing 7% to $397.1 million, but body creams and lotions were relatively flat.

Depilatories, up 4.4% to $10.7 million, also did well off a small base, and so did deodorants, up 4.5% to $370 million.

Convenience and sharper prices

In general, most drug chain executives felt that some of their gains in the category were coming from an increased marketing emphasis on their "traditional drug strengths"—convenience of location, ease of shopping and variety.

Some also felt that their pricing on some of the lines like hair care and ethnic had become more competitive in 1986, putting them in a better position to compete with the Krogers and the Giants and the K marts and Wal-Marts of the world.

Some product categories, such as styling aids and hair sprays, were helped along by consumer fashion trends, such as the emphasis today on styling and texturing the hair, as well as grooming it.

Retailers also say that, until recently, consumers weren't aware that products like mousses and gels could be used to give body and texture to the hair, as well as to control it.

Many retailers and manufacturers are also reporting an influx of much younger users into such key segments as hair color and hair sprays.

The traditional hair color and hair spray user used to be 35 and over, but today because of the new special-effect color cosmetic brands like Pazazz, Roux and Colorific and the new directional styling sprays like the Alberto Culver nonaerosols, consumers are coming into the category at a much earlier time in their lives.

Retailers say the credit for that has to go to the marketing departments of companies like Clairol and Revlon. One source says they have successfully "niche-marketed" products like Pazazz and Roux Fanciful as "fashion accessories," rather than color enhancers or products designed to conceal gray.

The younger users, both male and female, are also driving the sales of many new lines like L'Oreal's Studio Line, S. C. Johnsons L'Envie and the various line extensions of Aqua Net from Faberge.

Men are also becoming a much more faithful and reliable hair grooming shopper. Retailers say Alberto Culver's advertising for its Consort line of men's grooming aids has been tremendously successful in convincing men that they should buy mousse, sprays and other styling aids designed specifically with their needs in mind.

"Before, most men just used whatever their wives, girlfriends or mothers brought home," said one buyer. "Now we're seeing more of an inclination for them to want to have their own brands."

Hand and facial skin creams continued strong in 1986, but body cream sales were flat. Buyers speculate that women are tending to use their hand creams as "all-over body lotions."

Oil of Olay continues to be the market leader in facial creams, but buyers say that the more general usage creams and lotions like Bristol-Myers' Keri, S.C. Johnson's Curel and Soft Sense, Chesebrough-Pond's lotion and Helene Curtis's Suave also are selling well.

Some buyers also think that women may be buying and using sun care products with extra high spf's as everyday facial skin lotions.

Many of the sun care manufacturers are now claiming that their higher spf brands will help prevent premature aging and wrinkling, as well as protect the skin from burning.

Buyers say that, with the American market as health conscious as it is today, women, and maybe some men, may be using the higher-spf brands as foundation creams or moisturizers that can help them age more gracefully.

Scented deodorants growth

In the deodorant category, sales of scented brands are far outpacing sales of the unscented brands.

Salomon Brothers in New York, which tracks cosmetic and toiletry sales trends through a variety of outlets, says that their most recent data showed that special scent brands were growing at a 31% rate on a year-to-date basis, while the sales of the unscented brands were basically flat.

Stick deodorants were also growing faster in sales than their roll-on and aerosol counterparts. Salomon estimates market share for stick deodorants now at about 42.5% of the total market, up 9% from a year ago.

Mennen, Procter & Gamble's Secret and Sure, Gillette's Right Guard and Dry Idea, Bristol-Myers' Ban and Ban Basic, Arrid and Faberge's Brut are all named as strong sellers.

In shampoos, sales are still flat overall, but drug chains seem to have generated some reasonable dollar growth in 1986. Some buyers say that is because there has been more display activity and additional space allocations for the premium-priced segment of the market: the salon-style brands and the premium brands like Vidal Sassoon, Pantene and L'Envie.

Some retailers also say their sales have been helped by giving more space to diverted salon brands like Nexxus and Sebastian.

Ethnic sales off

The ethnic category was also relatively flat in 1986. Basically, retailers think this segment may be at maturity with most of its future growth coming from market share gains by the leading brands.

Most retailers say they don't expect another major surge in this segment until some new fashion look emerges and takes the country by storm as the curl style did a few years ago.

"When the curl kits and the curl maintenance products were hot," said one buyer, "we used to see sales in this category up 30% a year and better, but today, straighter hair is popular and people aren't buying all the accessory products they once needed to maintain the curly look.

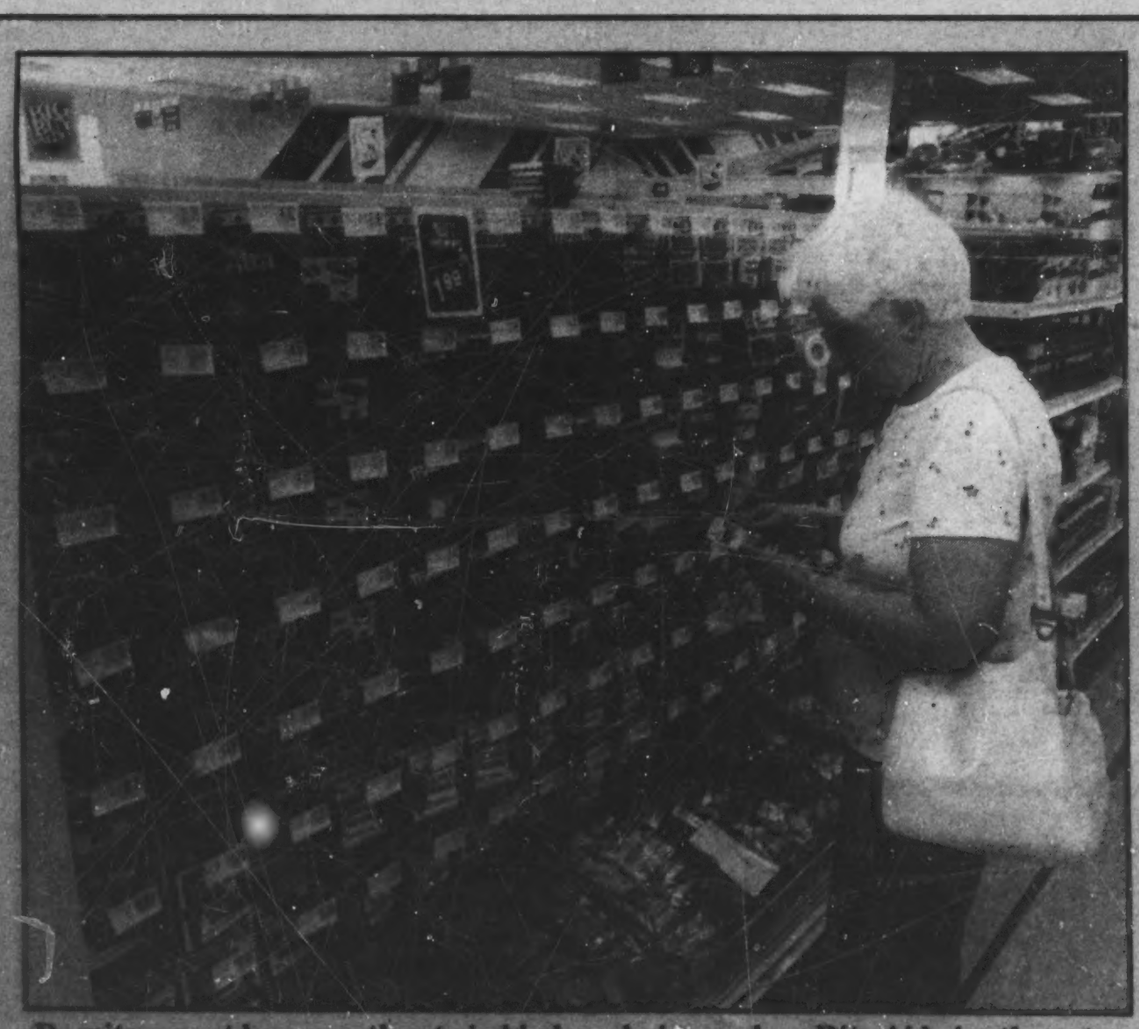
"The growth now is coming from styling aids and grooming products like the oil sheens and the hair moisturizers. The relaxer kit sales are also up but not enough to offset the flatness in the category as a whole."

1986 Toiletries department productivity

Category	Total sales (add 000)	% of increase	% of sales
[illegible]	[illegible]	[illegible]	[illegible]
Deodorants	370,035	4.52	11.46
[illegible]	[illegible]	[illegible]	[illegible]
Shampoos	344,021	3.83	10.65
[illegible]	[illegible]	[illegible]	[illegible]
Rinses and conditioners	215,511	4.94	6.67
[illegible]	[illegible]	[illegible]	[illegible]
Ethnic (incl. black cosmetics)	227,581	13.36	7.05
[illegible]	[illegible]	[illegible]	[illegible]
Razors/incl. disp. blade	147,414	2.27	4.56
[illegible]	[illegible]	[illegible]	[illegible]
Suntan/sunburn	152,547	4.32	4.72
[illegible]	[illegible]	[illegible]	[illegible]
Mousse/styling gels	58,620	8.76	1.82
[illegible]	[illegible]	[illegible]	[illegible]
Depilatories	10,726	4.44	0.33
Total	$3,229,640	100.00%	

1986 Toiletries department highlights

Chain drug toiletries sales	$3,229,640,000
Percentage of total chain drug sales	10.69%
Industry profit yield from toiletries last year	$807,410,000 to $968,892,000
Average annual department turns	5.0



Despite recent low growth rate in blades, chains such as Rite Aid give the category high visibility for impulse and integrate private label to improve margins.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Drug stores remain major outlet for ethnic sales

For the first time in many years, the ethnic product category did not have a strong overall growth year in retail drug stores.

In all mass market retail stores, excluding beauty salons and other non-traditional retail outlets where ethnic hair care products are sold, the total hair care segment was down 2% to $285 million in 1986, according to A. C. Nielsen marketing research.

Sales of ethnic hair care products in drug stores alone, says Nielsen, were also down 2% to $175 million.

Most industry sources estimate that hair care accounts for about 85% of all ethnic product sales, while segments like cosmetics, hosiery and skin care account for the rest.

Drug stores continued to remain the dominant outlet for generating retail sales of ethnic products, however. Their share of ethnic hair care category sales, as measured by A. C. Nielsen, remained stable in 1986 at 61%.

Mass merchandise stores, like K mart and Wal-Mart, which generate about 16% of all mass ethnic product hair care sales, also saw sales decrease by 5% to $44 million, according to Nielsen research.

Food stores, which generated 23% of all mass ethnic hair care sales in 1986, experienced a sales decline of 3% to $66 million.

Chain drug stores captured about 88% of all retail drug store ethnic hair care sales in 1986, Nielsen estimates.

Sales of ethnic hair products in chain drug stores, however, were also flat on average in 1986, totaling about $175 million just as they did in 1985.

Drug Store News is estimating that total sales of ethnic products in chain drug stores was up about 13% in 1986 to about $227.6 million. Most of the growth was coming from the expansion of ethnic cosmetic lines, ethnic hosiery lines and ethnic skin care lines like the Ambi brand, which is made by Kiwi in Pennsylvania.

Some of the growth is also due to the addition of high-turning products like gels, oil sheens, conditioning products and relaxer kits to drug store shelves, as well as to the elimination of some of the slower-turning sku's like the curl kits.

Why ethnic hair care sales are flat

There are several reasons for the modest growth in ethnic hair care sales in 1986.

Many black consumers today are favoring shorter hair styles which don't need as many maintenance products as styles associated with the curly look which hit its peak of popularity several years ago.

Also, no fashion change as dramatic as the curly look has hit the ethnic category in recent years, and the sales of curl kits themselves are either stable or declining rapidly, depending on which section of the country is being reported.

Some retailers say their sales of curl kits are just flat, while others are recording sales declines as dramatic as 10% to 20%.

Black women have backed away from the look because the trend today is to go with a more relaxed hair style that will permit a highly versatile range of styling options.

The woman with a curl basically has one look that takes about six months to grow out of her hair. The growing out process is also awkward and women are complaining that they can't "do anything with their hair" during the process.

Relaxed hair is more versatile

However, the relaxed look is more flexible, and women who use this style can vary their looks much more easily.

Relaxer sales, sources are estimating, are up anywhere from 10% to 15% throughout the nation.

The sales of hair presser-related accessory products like pressing oils are also up as retailers say more women are resorting to pressing their hair to help them through the awkward stages of the curl grow-out.

Men, too, have backed away from the curl look, and their rejection of this style has had an even more negative effect on the category.

Men are not just returning to more relaxed hair. They are, in many cases, virtually retreating to a no-hair or a very short hair look, particularly among the very young, style-conscious users.

The result is that men with very short hair don't need to buy a lot of maintenance products. As one source puts it, "A $3 jar of pomade will do them very well."

The result is that men who used to spend about $35 a month on hair maintenance products are now spending about $1 a month to achieve the look they want. A jar of pomade, on today's market, sells for about $3 and lasts for about three months.

Growth segments

However, there are some bright spots in the category, and retailers are finding them. More space is being given to the major brands, which through increased consumer advertising, are starting to gain larger shares of the national market.

Brands like Dark 'n Lovely, S Curl, Donnie's, Care Free, Posner and Sof-N-Free are gaining share from the smaller regional brands, and retailers who are spotting the trends through their sales history movement reports are adjusting their sales space and their planograms accordingly.

Retailers are also refining their advertising programs so that their traffic building ads only feature the high-turning, high-usage product categories like relaxer kits, oil sheen moisturizers and styling aids.

There is also a growing trend to putting ethnic care departments in stores that have transient black consumers as well as neighborhood black consumers.

Retailers say they are no longer putting ethnic departments in stores that have neighborhood populations of 30% blacks or more, but they are also putting these departments in stores near places where blacks work or where they travel to get between work and home.

The sections are not growing in size as they were last year, but retailers are doing a more skillful job of paring back slow-turning sku's in favor of the more productive brands.

Pricing strategies

Pricing is also getting more competitive in the category in an attempt to prevent the food chains and the mass merchandise chains like Wal-Mart from stealing a greater share of the business.

Retailers say that profits in the line are still good, however, since the best-selling brands turn much faster than their counterpart brands in the general market H&BA sections.

In breaking the category down into its component parts, the growth areas in hair care seem to be in styling, conditioning, relaxing and coloring products and there is a major demand for "lite" conditioning or styling products.

The black consumer, like the white consumer, is looking for styling and conditioning aids that can add body and sheen to the hair without weighing it down or making it oily or greasy.

Heavy oils on black hair also can be a medical problem, since they can clog pores and cause the hair to become even drier and more brittle.

In color, women seem to be getting a little more daring in their willingness to try coloring products, as long as the shades are not too brash or the proposed change in looks too dramatic.

Some manufacturers are reporting sales increases as high as 45% and more on their coloring lines, but some distributors are also reporting a slowdown in the sales of Color Play and Color Accents, two color-enhancer lines launched last year.

The South seems to be the slowest market for color, while the Northeast and the West Coast seem stronger.

Natural products becoming popular

Natural products like the All Ways Natural line are gaining distribution in retail drug stores, and retailers say their sales are growing. Part of the demand seems to be coming from articles in black fashion magazines like *Ebony* and *Essence* which talk about the benefits of natural products, and part of it seems to be coming through the distribution of free trial samples which is sparking demand for the natural brands in chains like Walgreens and SupeRx.

Chains are not advertising ethnic products more than they have in the past, but they are advertising them in more innovative ways. Some are using just direct mail rather than circulars, so they can better target the shoppers in the ethnic neighborhoods where their better ethnic stores are located.

Others, like Walgreens, which has ethnic departments in all their stores, are advertising two or three ethnic brands every circular. The result is that shoppers tend to think of ethnic brands as "normal" parts of the chain's mix, and they tend to shop those stores more often for their everyday needs.

Manufacturers are also doing more to make the brands in their lines more familiar to the consumer.

Consumer advertising is growing

Just about all the major manufacturers advertise several times a year in the major fashion magazines like *Essence* and *Ebony*. Many also do radio and cable advertising, as well as some spot television.

Outdoor billboard advertising is still very popular with black companies, but there is also a growing trend to emulate the major general-market beauty care companies by staging consumer promotions like sweepstakes and giveaways.

Pro Line, for example, sponsors a Family Reunion Sweepstakes for the key Black History Month sales promotion in February, and Johnson Products is continuing its Model Search promotion, which is now in its fifth year.

Worlds of Curls, M&M, Soft Sheen, Posner and others have other types of consumer promotions planned for throughout the year.

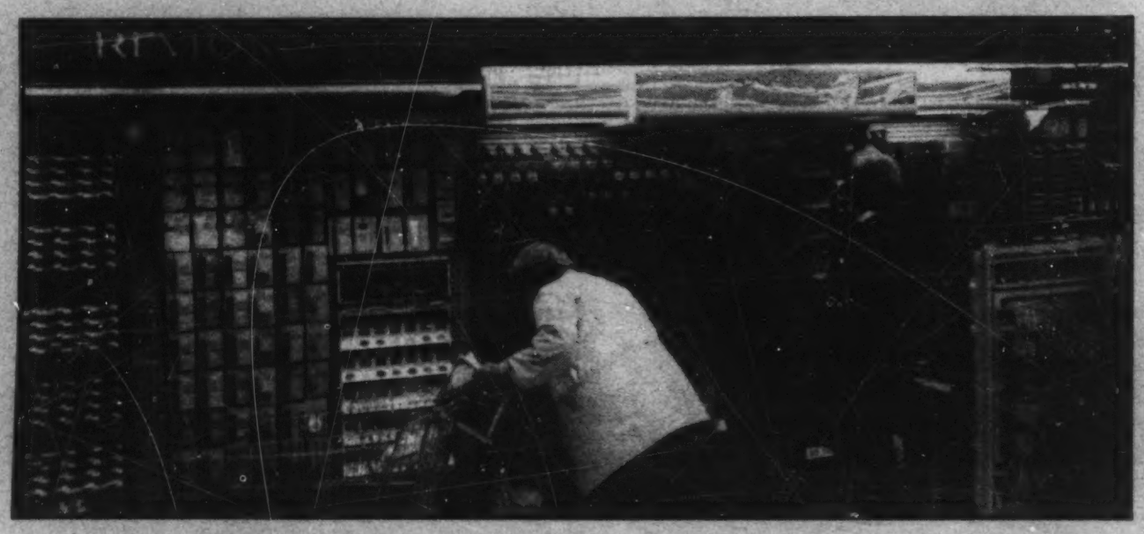
Ethnic hair preps: Annual dollar sales trends
(in millions of dollars)

	Drug stores		Food stores		Mass merch stores		Total	
Year	$ sales	% change	$ sales	% change	$ sales	% change	$ sales	% change
1982	$119	24%	$45	18%	$38	46%	$202	22%
1983	138	16	57	30	43	13	238	18
1984	157	14	66	16	52	21	275	16
1985	178	13	68	1	46	– 9	291	6
1986	175	– 2	66	– 3	44	– 5	285	– 2

Source: A.C. Nielsen Marketing Research

Hosiery was a bright spot in the ethnic picture in recent months, catering to the styling preferences of many women.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY



Women who shop at deep discounter Maxidrug see an extensive cosmetics run in the first traffic aisle. Beauty needs are on facing gondolas, with costume jewelry racks and leather billfolds among midaisle high-impulse displays.

1986 Cosmetics department productivity

Category	Total sales (add 000)	% of increase	% of sales
Pegged cosmetics	366,320	11.30	22.82
Bath preps	136,254	3.71	8.49
Nail polish/nail preps	156,075	16.70	9.72
Total	$1,605,117		100%

Nail products point the way in cosmetics sales

Chain drug stores reported a relatively "fair" year in cosmetics/fragrances sales in 1986.

According to *Drug Store News'* annual chain drug survey, total department sales rose 8.4% in 1986 to a total of $1.6 billion.

The most dramatic growth was recorded in the nail color and nail treatment segment of the cosmetic category.

Thanks to a surge of new product introductions combined with what seems to be a growing consumer fascination with "nail glamour," this segment surged an approximate 16.7% in 1986 to a total of $156.1 million.

Retailers took advantage of the growth in nail care by expanding space allocations for this department, as well as by advertising the most popular brands like Lee's Press-on Nails, Revlon, L'Oreal and Max Factor nail colors, and Revlon and Sally Hansen nail treatment lines in both print and television.

Nail segment shows growth

Many buyers say they expect to see this category segment stay strong for at least another six months, and some are predicting that nail treatments will soon exceed the nail extenders or press-ons in growth potential.

Buyers say the only segment of nail care that has not been selling well are the polishing pens and some of the less trendy shades in the budget and fashion-color lines.

Buyers say that nail implements is also a growing segment. "Working women have just seemed to make nails this decade's hottest-growing segment," says Bob Berman, vp-merchandising for May's Drug in Tulsa.

Because of increased consumer advertising and, in some cases, repackaging, Revlon, L'Oreal and Max Factor are also doing well in nail color sales. Some buyers, however, are reporting that the Cutex, Aziza and Hazel Bishop sales are slowing down.

Pegged cosmetics sales

Pegged cosmetics also showed some strong growth in 1986, increasing 11.3% in sales to $366.3 million. Buyers say part of the segment's success is due to the relaunch of Revlon's Natural Wonder line. Others say Maybelline's new packaging helped sales of that brand, and many retailers say they also saw a surge in budget sales like Artmatic, Emerge and Wet 'n Wild.

In make-up powders and creams, buyers say that Max Factor is selling well, but the reports on L'Oreal's Visuelle are mixed. Some say the line is very strong in their stores, while others report that sales are flattening.

Most buyers also still rate the mid-year launch of Noxell's new Clarion cosmetic line a "great success," and several say that Clarion has helped spark sales in their cosmetic departments dramatically.

Depending on the chain, reviews on Almay are slightly mixed. Most buyers say the Almay line is still selling very well, but a few say they think they are seeing a slowdown in sales and Clarion may be responsible.

Buyers say their impressions at this point, however, are still "tentative." We have a gut feeling for what's happening, said several sources, but we don't have enough sales data yet to draw conclusive opinions.

In facial treatments, Oil of Olay is still the outstanding seller, but Revlon is doing well with its more upscale Moon Drops and Pro Collagen lines, and some of the middle-priced brands like Curel, Nivea and Keri lotion are also selling very well.

Good reports are also being heard about a relatively new brand called Swedish Secret and about Neutrogena's new Norwegian Formula Emulsion.

Bath preps, however, are slow, and buyers say the problem seems to be that manufacturers are not marketing their products strongly enough to bring new users into the category or to increase the frequency of use among traditional buyers.

In fragrances, unit growth overall is still relatively flat. Buyers say some of the alternative designer brands like Primo and Giorgi Girl did very well at Christmas, but the category is starting to mature and seems to be leveling off in terms of continued dramatic sales growth.

Coty's launch of Lady Stetson last year, however, did generate some excitement in this segment and buyers say the brand did very well in their stores. Vanderbilt, Jovan, Charlie, Le Jardin de Max Factor, Forever Krystle also did well in chain drug stores last year.

Men's fragrances

Men's fragrances did not do brilliantly in chain drug stores for the bulk of the year, but at Christmas, Chaps, Stetson, Pierre Cardin, Brut, Old Spice and English Leather did well, and some chains like Walgreens were very successful with Beecham's new Adidas line.

In 1986 also, drug store retailers continued with their ongoing efforts to upgrade their cosmetic and fragrance departments. Some chains like Revco and Eckerd, who are experimenting with putting their cosmetic sections closer to the front of the store to capture more impulse sales, reported dramatic sales growth.

Others like Begley and Peoples, who are training cosmeticians to handle the department, also reported good sales growth.

Even chains who are satisfied with their sales growth, however, are on record, saying they believe there is more potential in the department than anyone has ever tapped yet.

Most retailers say they think the category, which now accounts for 5.3% of all chain drug store sales, could ultimately capture at least 8% and possibly as much as 10% or even 12%.

Stores which have upgraded their departments and improved the ambiance of their sections with glossy photos and new fixtures from manufacturers like Revlon, say that sales have improved substantially.

Most retailers say, however, that the real key to unlocking the potential of the department is in the store-level sales clerks.

Training is the chain drug industry's next highest priority with cosmetics.

Once the clerks have been better educated about the products in the department, retailers say, sales growth could go as high as 15% to 20% a year.

Most chains say that one of their highest priorities then for 1987 and 1988 will be in-store training in the cosmetic department.

1986 Cosmetics department highlights

Chain drug cosmetics sales	$1,605,117,000
Percentage of total chain drug sales	5.31%
Industry profit yield from cosmetics last year	$561,791,000 to $642,047,000

Forecast: $1.3B nail sales by '92

Nail care sales, currently $875 million retail, are expected to grow to nearly $1.3 billion by 1992, according to Packaged Facts, a New York-based research company.

That would be achieved by 10% yearly growth in the next two years, followed by a 5% annual growth pace, the study said.

New product introductions and "more feminine appearance in fashions and at the workplace" prompt the optimistic forecast. David A. Weiss, president of Packaged Facts, called this a turnaround from the 1970's, when "feminism and the new role of women in the workplace created an environment that deemphasized the use of cosmetics."

Citing new product introductions as the spark to estimated 25% annual growth the past two years, Weiss said artificial nails, silk wraps, nail creams and combination hardeners/polishers created new customers and offered salon alternatives.

Another result of all the new products: Many nail polish users are more willing to try other nail-care items, and nail-care users experiment with decorative products.

"Despite the inroads made by the newest types of nail care products, the established types . . . maintain their share of market" because of crossover purchasing, Weiss added. "Apparently, once consumers start purchasing one type of nail-care product, they expand their purchasing to other types."

Fashion and home office trends hype stationery

Drug chain retailers have embraced stationery in recent years, and the department has responded with continual strong growth; 1986 was no exception.

On the heels of a 13% growth year in 1985, stationery leaped another 10.1% in 1986 to $1.49 billion at drug chains. Changes in the nation's workplace and stronger merchandising efforts are combining to propel stationery sales at drug chains.

People are working at home more, drawing business away from downtown business centers and creating opportunities for suburban and rural merchants to sell more office, filing, mailing and organizing products.

Consumers trading up

Moreover, consumers have demonstrated a willingness to trade up to better quality, higher fashion and longer lasting products. Students buying school supplies and businesspeople filling in their professional needs consider the stationery items they use to be making personal statements about themselves, just like any other fashion accessory.

To capitalize on these social trends, drug store operators are generally committing more footage in front-of-store locations to stationery. The most dramatic example is the continued wave of chains that move greeting cards from back-to-store to front and generate 20%-plus sales gains.

Indeed, greeting cards chalked up the greatest dollar sales gain in the department last year, climbing 12.1% to $519 million. That's more than one-third of total stationery volume.

Giftwrap is sharing the success of greeting cards, having climbed 7.5% to $86 million at drug chains in 1986.

Pastel and primary colors

Growth in the school supplies and home office categories has been fueled by an onslaught of better-designed and colored merchandise from vendors supplying the mass market. While it has been fairly common to see licensed characters on school supplies for years, the recent rage has been pastels and primaries on everything from pens and pencils to portfolios and theme notebooks and so on.

In addition, home office and tax time supplies such as file cabinets, hanging folders and desk accessories are coming in many colors.

Fashion means higher tickets, an upgraded store image and increased profits. The trend translated into a 14.6% school/home office gain to $416.8 million at drug chains last year.

Stationery growth has been a decidedly bright spot for retailers, who have largely been paring back general merchandise and restressing their health care images.

They have found themselves unable to compete evenly on general merchandise because space constraints limit their assortments. Drug store retailers decided, however, that stationery and greeting cards are used and replenished daily by consumers, and they could use their stores' convenient, quick in-and-out environments to best advantage here.

Year-round business

Pat Triboletti, vp-merchandising at Happy Harry's in Delaware, summed up the feeling of many drug store merchants when he said, "Stationery has transcended the general merchandise designation to become a core category. It is a 12-month-a-year business, with only a slight slackoff in June and July." He noted further that "the only time profit suffers somewhat is when competition peaks in the main three-week back-to-school season."

Retailers who have found the proliferation of stationery sku's to be a stocking and housekeeping problem have been turning to distributor service. An estimated one-third of drug chain stores use distributors who reorder and maintain racks that commonly run from 36 ft. to 72 ft.

Drug Emporium, for instance, uses a distributor in 18 Northeastern stores, where turns increased to a high annual rate of 18 since the service began.

Some drug store operators seem willing to pay distributor upcharges to eliminate maintenance headaches and be alerted to new products from more vendors quickly. That takes on added importance with stationery partly a fashion business now.

Begley is taking a slightly different approach. The 43-store chain, headquartered in Kentucky, gave a positive jolt to its year-round school and home office sales when it tripled sku's in one vendor's complete stationery program that gives a coordinated look in packaging and display.

Buyer Chuck Reeves said the chain rolled out the program in 1986 after a one-store test produced strong customer response. Planograms of 48, 60 and 72 ft. are built around a merchandising plan by Herlitz, which makes the coordinated sku's. The 72-ft. set holds far more inventory than Begley had in the same space before—440 sku's, compared to 172.

Reeves said that using one primary vendor simplifies ordering. Yet he still augments the assortment with major branded office goods.

Another home office category that might emerge is mailing supplies, including special types of envelopes, securing tape and brown wrapping paper. Osco is among chains displaying this merchandise and watching results.

To grow the core replenishment home office business, drug chains are often tailoring assortments and marketing strategies on a store-by-store basis.

For instance, Happy Harry's stores that are adjacent to office buildings stress office supplies sales with a medium- to high-grade assortments.

Page Drug in Dallas generates extra tax time sales with a 16-ft. home office planogram that is separate from its 24-ft. back-to-school section. In it, Page carries higher-priced quality assortments to meet demand in upper middle income trading areas, said buyer Steve Standifer.

Tax time sales at Page equal about 40% of August back-to-school sales.

For its part, Gray Drug Fair deliberately underprices local office supply stores to attract professional users.

1986 Stationery department productivity

Category	Total sales (add 000)	% of increase	% of sales
Cards	$ 518,761	12.06%	34.80%
School, home/office	416,759	14.56	28.01
Books and magazines	240,726	4.72	16.18
Writing instruments	99,913	7.37	6.71
Social stationery	65,726	3.28	4.42
Gift wrap	85,983	7.53	5.78
Disposables/party supplies	48,925	2.40	3.29
Art supplies	11,355	3.22	0.76
Total	$1,488,149	100.00%	

1986 Stationery department highlights

Chain drug stationery sales	$1,488,149,000
1986 percentage increase	10.07%
Percentage of total chain drug sales	4.93%
Typical gross margins	40%-45%
Industry profit yield from stationery last year	$595,260,000 to $669,667,000
Average annual department turns	4.5

Greeting cards line a frequently used traffic aisle between pharmacy and the mall side of CVS store in Chicopee, Mass. Its holiday message was complete and convenient for shoppers who could pick up stamps and boxed candy too.

Sampler of stationery facts

- Americans will send almost 8 billion greeting cards this year, about 30 per person.
- When people entertain, they spend an average of $12.36 per party on paper wares.
- The average household uses five calendars per year.
- The average household buys at least one gift item of stationery, magic or pens annually.
- More men and teen-agers are now involved in family greeting card purchases.
- More than one-fifth of greeting cards sold are related to U.S. holidays, Valentine's Day, Easter and Mother's Day.

Source: American Greetings

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Price/value cigarettes light up continued growth

Drug store retailers struggled to maintain profits and market share in their tobacco departments last year, against a backdrop of declining unit demand, continuing price hikes and product segmentation from manufacturers and an increasingly vocal antismoking lobby.

Demand for tobacco products continues to decline, with unit sales of cigarettes down another 2.1% in 1986, according to industry analyst John C. Maxwell Jr. of Furman, Selz, Mager, Dietz and Birney. Growing health concerns, social pressures, an activist Congress and expected increases in the excise tax later this year will all contribute to continued declines for the foreseeable future.

"Looking to the future, the industry is faced with an approximate 1.7% rate of decline per year . . . through 1991," Brown & Williamson Tobacco Corp. admitted in a recent market survey.

'Passive smoke outcry'

Several hot issues surrounding the tobacco market are expected to come to full boil this year. One is the growing outcry over the effects of smoking and "passive smoke" on the health of smokers and nonsmokers alike. Those concerns have drawn vocal critics of smoking into the fray, including the U.S. surgeon general and some U.S. Congressmen, who are expected to vote later this year on a new, sweeping package of health-related legislation which would ban all advertising and promotion of tobacco products including retail display. The measure is gaining ground despite concerns over freedom of speech in advertising.

Another issue roiling the outlook for the tobacco industry is the excise tax. Faced with a critical need to generate new revenues, Congress is expected to double the current excise tax on cigarettes again this year, from 16¢ to 32¢ per pack. Coupled with another projected 6% increase in cigarette prices from manufacturers this year, the higher tax is expected to cut deeper into unit sales and give another boost to the low end of the market, which has seen most of the new activity in cigarettes over the past several years.

The price/value segment of the cigarette market, in fact, has climbed to about 9% of total sales, even as the number of Americans smoking has dropped to about 55 million from 58 million in 1975. Spurred by the success of repositioned Doral, Cambridge Lights and other "branded" generic entries, manufacturers have begun flooding the low end of the market with new branded entries like Brown & Williamson's Falcon Lights, R. J. Reynolds' Magna and American Tobacco's Malibu. All are priced considerably below full-priced brands.

Maxwell predicts the price/value side of the market will remain on an uptick, even as overall demand declines. However, the proliferation of new entries on the low end of the market is adding considerably to an already crowded field and giving merchandisers additional space problems. According to Brown & Williamson, a retailer could satisfy 98.5% of its cigarette customers in 1980 by stocking 123 cigarette brands but now must feature 198 different packings to reach the same level of customer satisfaction.

Drug store merchandisers have little choice, however, but to keep up with many of the new introductions with sufficient shelf space. Some 18 to 20 new cigarette styles emerge each year as significant performers, according to the tobacco industry, and 38% of cigarette sales in 1985 were linked to brands less than 10 years old. In addition, studies by the Point of Purchase Advertising Institute (POPAI) show that cigarette smokers are intensely brand loyal and will shop elsewhere if a store doesn't stock their favorite brand.

Generics market share

1982	0.95%
1983	2.92
1984	4.72 *
1985	5.86 *
1986	6.94 *
1991 (proj.)	12.5 *

*Includes branded cigarettes at generic prices

Source: Brown & Williamson Market Research

Another big challenge in retailing cigarettes, especially by the pack, is the high level of shrink. The problem has been severe enough to cut deeply into gross margins and force most drug chains—including Walgreens, Perry, Fay's and Begley—to keep packs or cartons or both behind the checkout counter and out of reach.

Retailers have also been subject to some of the resentment expressed by many smokers over the steady price increases since 1980. Those increases have combined with higher excise taxes to raise the average price of a pack of smokes 64% since the beginning of the decade, to $1.10 last year. Thus, despite the steady decline in consumption, the cigarette industry has seen a near doubling of retail volume in the past six years, from about $17 billion in total sales in 1980 to $30.8 billion last year.

That yielded a gross profit at retail of about $6.2 billion in 1986, according to Brown & Williamson. Nevertheless, many drug merchandisers continue to regard tobacco products as low-margin income producers, and some challenge the estimated 17% gross profit margin calculated by the tobacco industry. Minimum pricing floors for cigarettes in many states, however, keep high-volume competitors like supermarkets and discounters from low-balling cigarettes and cornering the market.

With about 9.1% of the total market, drug stores remain acutely involved in cigarette retailing. As health-oriented retailers, however, they are also caught squarely in the middle of a growing battle between the tobacco industry and the antismoking campaign.

One of the most controversial aspects of the battle, in fact, is the continuing rise in the number of female smokers as manufacturers employ successful campaigns aimed at young, career-oriented women. Women now account for more than 55% of the smoking population, according to Brown & Williamson, compared with 52.2% in 1983. They have also fueled a big rise in the popularity of longer-length cigarettes, which now account for about 40% of the total market, compared with 30% in 1978.

Another continuing controversy is the rise in pricing itself. According to a recent study by Jeffrey Harris, an economist at the Massachusetts Institute of Technology, manufacturers' price hikes and higher excise taxes have led to a 15% drop in the per capita consumption of cigarettes since 1981. In addition, Harris reported, the higher prices have been enough to induce some two million people to quit smoking and have kept some 600,000 teenagers from taking up the habit.

1986 Tobacco department productivity

Category	Total sales (add 000)	% of increase	% of sales
Cigarettes	$1,483,064	3.98%	67.26%
Cigars	342,182	0.87	15.52
Lighters/smoking accessories	197,703	5.76	8.97
Tobacco/tobacco products	156,120	1.72	7.08
Pipes	25,751	1.25	1.17
Total	$2,204,820		100%

1986 Tobacco department highlights

Chain drug tobacco sales	$2,204,820,000
1986 percentage increase	3.64%
Percentage of total chain drug sales	7.30%
Typical gross margins	15%-20%
Industry profit yield from tobacco last year	$330,723,000 to $440,964,000
Average annual department turns	15.0

Male/female smokers

	Male	Female
1983	47.8%	52.2%
1984	47.3	52.7
1985	46.1	53.9
1986	44.7	55.3

Source: B&W Market Research

Cigarette sales by retail outlet, in units

Supermarkets	30.0%
Convenience	17.5
Grocery	13.4
Gas stations	12.4
Drug stores	9.1
Vending	7.4
Discount	6.6

Source: Brown & Williamson Market Research

Market share comparisons by flavor

	1978	1986 (est.)	1991 (projected)
Menthol	29.1%	27.5%	27.0%
Non-menthol	70.9	72.5	73.0

Source: Brown & Williamson Market Research

Cigar sales share

Drug stores	28%
Food stores	18
Mass merchant/ discount dept. stores	12
Convenience stores	10
Smoke shops	10
Bars/taverns/clubs	10
Other	12

Sources: U.S. Department of Agriculture Market Facts, Cigar Association of America

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

1986 Candy department productivity			
Category	**Total sales (add 000)**	**% of increase**	**% of sales**
Bagged	$ 415,176	10.89%	38.91%
Boxed	214,645	11.46	20.12
Bars	313,890	8.17	29.42
Chewing gum	105,589	6.58	9.89
Other	17,782	6.24	1.67
Total	$1,067,082		100%

1986 Candy department highlights	
Chain drug candy sales	$1,067,082,000
1986 percentage increase	9.67%
Percentage of total chain drug sales	3.53%
Typical gross margins	25%-30%
Industry profit yield from candy last year	$266,771,000 to $320,125,000
Average annual department turns	7.5

Pay 'n Save gets mass impact at checkstands with a seasonal display of boxed candies. Drug chains had success integrating boxed candies into their everyday mix in 1986. The segment helped lead candy growth.

Bagged branded candies practically jump out at shoppers when displayed in angled wire bins at Rite Aid, Camp Hill, Pa. (above), and CVS, Chicopee, Mass. (below). The Rite Aid picture demonstrates the high impulse appeal of candy that retailers work to capture. The display is in the store's front quarter, opposite magazines, giving a message to curl up with a treat. At CVS, bagged candies, nuts, chips and snacks are in sequence, as if to help shoppers decide what to serve when they entertain at home. Large-size packages, rather than single-serves, escalate the average ticket and improve profitability.

Upscale, boxed candy sweetened 1986 sales

Upscale and boxed candy were the growth leaders for drug store chains in 1986, as consumer preferences leaned toward the better products. However, the longtime standbys—gum, candy bars and bagged items—registered as leading favorites at the checkstand.

Boxed candy in both seasonal and year-round selections spurred sales for several chains—and in both areas, the upscale taste and price was a factor. One drug chain suggested the move toward upscale candy reflected consumers' desire to treat themselves to something better.

Boxed sales leaders

Boxed brands such as Whitman's, Brach's and Russell Stover topped many chains' list of favorites, while others noted that Mon Cheri and Cadbury were also popular.

However, there did appear to be a price limit for consumers on better products. Valentine's Day boxed candy stayed typically under $20, for example. At Kinney Drugs, the Valentine's Day bestseller was a Russell Stover 2-lb. box at $12.

Overall, Christmas, Easter and Valentine's Day were the key holidays for candy. Chain promotions and advertisements helped push the category, but so too did launches of favored new products and vendor presell advertising to consumers.

Buyers said candy warranted year-round promotional efforts. Many ran ads as often as twice a month, helping to bring total candy sales up nearly 10% in 1986.

Impulse sellers

Candy sales were also helped by other factors, noted several chains. At Pay Less NW, buyer Bill Lorbeski said, "The presentation is a big part of your sales." Other chains agreed, adding that the proper signage is also an important element since 75% to 80% of the candy sales are impulse.

Checkstand merchandising, plus endcap and speed table displays, were the leading ways drug stores brought candy turns closer to double digits last year.

Customers continued to satisfy their sweet tooth, consuming some 3.24 billion pounds of candy in 1986, up 1.7% over the previous year, according to the National Confectioners Association (NCA).

Chocolate wins overall

Chocolate candy was the hands-down leader, according to drug stores, and this popularity was echoed at all retail segments. NCA said chocolate consumption alone accounted for 2.07 billion pounds shipped in 1986.

The price hike in candy bars initiated in early 1986 sent retail prices leaping 14% from 35¢ to 40¢. That resulted in slower candy bar sales at some chains. One top-five drug chain reported that the only way they got candy bar sales to increase was by promoting multipacks.

Checkstand merchandising, plus endcap and speed table displays, were the leading ways drug stores brought candy turns closer to double digits last year.

Elsewhere, however, other buyers said the price hike did not deter customer candy purchases. One noted that overall candy sales were flat in his region because of the South's depressed economy. Industrywide, Snickers continued to be a favorite among consumers, while Mars and Hershey bars also remained strong.

Bagged candy produced steady sales in 1986, with M&M, Heide Gummi bears, Skittles and Hershey Rolos as leading items, particularly at checkstands, buyers said.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Food and drink snap, crackle and pop sales in '86

Food, snacks and beverages all showed significant gains for drug stores in 1986, as microwave popcorn, juice-added soft drinks and wine coolers helped boost sales.

Grocery/food products posted a strong gain during a year in which several chains increased their grocery offering. Both Eckerd and Shoppers Drug Mart expanded their food selections to increase traffic and attract the customers looking for fill-in groceries.

Nuts and snack sales also crunched good numbers; microwave popcorn led the list of popular snack items—thanks particularly to single-size servings.

Popcorn and peanuts

"Our microwave popcorn in the snack section has taken off," noted Bill Lorbeski, Pay 'n Save food and beverage merchandiser. Lorbeski also said chocolate chips and walnuts did well on a seasonal basis, while peanuts were promoted year-round and given 12 ft.

In beverages, wine coolers, juice-added soft drinks and regular soft drinks worked to create a good sales gain for drug chains in 1986.

Many chains acknowledged growing sales of fruit-added drinks and the boost it has given overall soft drink sales. Buyers at SupeRx, Eckerd and Begley Drug said the fruit-added sodas supplied a 5%-plus increase for the category overall.

The juice-added drinks were promoted and used as traffic builders at several chains; Revco and Gray Drug Fair said they used in-store signage and trial-size displays to increase sales.

Soft drink 'on deal'

Although drug stores said Pepsi and Coke juice-added products lead the way in popularity, additional entries have increased the category's space allotment. However, many stores said they expect a shakeout to occur soon, with a few brands remaining strong.

Regular soft drink sales remained good but competitive, often producing low gross margins, according to several retailers. Pay 'n Save's Lorbeski said soft drinks "really have to be merchandised and sold on a deal."

Lorbeski also noted that the chain is testing a 24-ft. expansion of its soft drink area this year, which will give the stores a cooler section to add to the current promotional and endcap displays.

Liquor, wine and beer sales also climbed during the year, as drug stores continued to ride on the success of wine coolers. In fact, several chains acknowledged that if it were not for the wine coolers, overall wine sales would be flat.

New flavors expected

Because of space limitations, most chains said they carried only the top two wine cooler brands—typically Bartles and Jaymes and Seagrams. The growth of Seagrams was attributed to the national advertising campaign featuring "Moonlighting" star Bruce Willis.

The popularity of Blush and Zinfandel wines appears to have leveled off, according to drug chains, who report they anticipate that vendors will start coming in with new flavors—possibly peach.

Imported beers continued to make inroads with the consumer, with drug stores reporting the popularity of Corona and Heineken. However, chains such as Pay 'n Save said they only carry beer on a promotional basis, staying away from day-to-day competition with the grocery and liquor chains.

1986 Food/liquor department productivity

Category	Total sales (add 000)	% of increase	% of sales
Liquor/wine	$ 622,874	3.04%	46.67%
Soft drinks	196,014	5.87	14.69
Nuts	109,094	5.34	8.17
Snacks/cookies	101,520	6.84	7.61
Beer	86,552	6.23	6.49
Canned goods/condiments	58,600	2.28	4.39
Dry groceries	50,825	2.75	3.81
Other foods	109,046	5.08	8.17
Total	$1,334,525		100%

1986 Grocery/liquor department highlights

Chain drug grocery/liquor sales	$1,334,525,000
1985 percentage increase	4.24%
Percentage of total chain drug sales	4.42%
Typical gross margins	15%-20%
Industry profit yield from grocery/liquor last year	$200,149,000 to $266,905,000
Average annual department turns	12.0

Drug store industry finds 'Beer Baron' bills hard to swallow

WASHINGTON — Calling legislation that would exempt beer companies from Federal antitrust laws "anticompetitive," the chain drug store industry renewed its fight against exclusive territorial rights for beer distributors.

The so-called "Beer Baron" bills were reintroduced on both sides of Capitol Hill within the past few weeks. If enacted, the legislation would grant a special antitrust exemption for the beer industry and, in effect, allow a wholesaler to have a beer distribution monopoly.

According to the National Association of Chain Drug Stores, passing a "Beer Baron" bill would "severely hurt competition in the marketplace, reduce services and the availability of products to retail stores and would ultimately result in higher prices to the consumer." The chain drug store industry has consistently opposed the antitrust exemption for beer wholesalers since 1983. Chain drug stores sell more than $125 million annually to malt beverage consumers at retail outlets, NACDS reported.

The chain drug store industry is not the only sector opposing such "beer bills." Similar legislation in past years has drawn fire from the National Association of Retail Druggists and the Food Marketing Institute, as well as state and national officials, consumer groups and antitrust enforcers.

However, Sen. Dennis DeConcini (D-Ariz.), who has resurrected the Senate "beer bill" that he sponsored last year, maintained that the antitrust exemption for beer distributors would help "sustain the intense market competition that characterizes the beer industry."

According to the Arizona Democrat, brewers favor the exclusive territory agreements because they ensure "meticulous service to retailers through the wholesaler's contractual accountability to the brewery."

Notwithstanding potentially improved service, drug store retailers and their customers may end up paying a big price for any beer industry antitrust exemption. Quoting an economic report by the Consumer Federation of America, NACDS reported that such legislation "will cost consumers more than $1 billion annually in higher prices for malt beverage products."

A House measure, introduced by Rep. Jack Brooks (D-Tex.), is similar to the DeConcini legislation.

Last year's Senate bill was withdrawn near the session's end.

Beer group's argument

Contributing to the push for an antitrust exemption to allow exclusive beer territories is the Virginia-based National Beer Wholesalers Association. Association officials contend that the "beer bill" would not eliminate any beer wholesalers or affect beer prices. Instead, the legislation would "preserve the existing and highly competitive wholesale distribution system for beer in the United States.

Md. bill fuels 'special interest' fears

Federal "beer bills" designed to promote exclusive wholesale beer distribution territories appear to be breeding "clone" legislation at the state level.

For example, the Maryland House of Delegates is considering the Wine Cooler Fair Dealing Act, which would limit wine cooler distributors to designated sales territories.

The proposed Maryland legislation lends credence to concerns raised by critics of the Federal "beer bills" that such special interest treatment would slip over into other industries.

Like the Federal proposals on beer, the Maryland "wine cooler bill" is drawing opposition from the Federal Trade Commission. F.T.C. staff members recommended that Maryland lawmakers reject the proposal, warning that it would "likely increase the costs of wine coolers to consumers."

According to the F.T.C., the "special interest" bill would protect inefficient distributors from new competitors and preserve "obsolete distributional arrangements." They recommended that "a more appropriate way" for Maryland delegates to address the problem of alcohol consumption "would be to tax the products directly."

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Staple toys and game score high profit points

The spinner landed on toy "staples" again in 1986, allowing drug stores to circle the board on their way to higher profits.

While drug stores' toy department sales were flat—reflecting the industry's trend of the last few years—buyers said profits grew from the sale of high-margin board games, puzzles, preschool, and peggables.

Moreover, buyers predicted more of the same in 1987, based on strong board-game entries by such vendors as Milton Bradley, Parker Bros. and Pressman.

Resurgence of basics

"We saw a tremendous resurgence last year in basics, particularly in board games, and we're looking for that trend to continue," said Mark Keralla, vp-sales, with NationMark Inc., which distributes toys in the Southwest to Tom Thumb/Page, Skaggs, Kroger and Albertson's.

"Last year was excellent if you were in the basics," agreed Paul Chabot, toy buyer with the Providence, R.I.-based Douglas Drug.

Drug stores sold $689,766,000 in toys for the year, a 1.64% decline from 1985. The industry overall experienced a fairly flat 5% growth, as the so-called basics continued to hold the stage in the absence of the blockbusters that had rattled store shelves in the decade's early years. Toy officials looked for another 5% growth in 1987.

Most drug buyers welcome the trend to basics, since it means they can cut exposure in risky, high-investment licenses and trendy dolls in favor of low-bulk, good-margin games.

"I think this is going to be an outstanding year for preschool, board games, puzzles, and other staples," said Steve Lerch, the seasonal buyer for the SupeRx division of Hook SupeRx.

"On the whole, you're going to see a shift in the purchasing habits in the drug industry toward staples and away from the television-promoted items," Lerch noted.

SupeRx strategy

SupeRx posted "excellent" 1986 sales, with its combination of TV-promoted items, staples and "basics." TV-promoted items and staples such as board games are bought on an in-and-out basis throughout the year. "Basics" include a year-round 4-ft. peg display of domestic toys, plus 8 ft. of pegged import merchandise that retails at less than $2.

SupeRx shifted its strategy for supplying stores with toys in 1986, when it began to supply all stores through Kroger's Peyton Group, the food and nonfood distribution arm. The move allows the stores to work with one supplier rather than with dozens of rack jobbers, allows better control of mix and distribution and allows better margins, Lerch said.

Kinney Drug of New York wants to increase the 80% sell-through it had in 1986 by 5 or 10 points, by leaning on this year's strong selections in board games, according to buyer Ed Easton.

No talking dolls

"We won't carry any talking dolls because you can't make any money on them. And the game part of the toy industry is shining," said Easton.

Easton will be aiming for margins in the mid- to high 30s on such entries as Milton Bradley's Torpedo Run, its T.H.I.N.G.S. four-sku mini-skill action games at under $6 apiece, and resurfaced perennials such as Trouble, Headache and Mousetrap. Milton Bradley's Win, Lose or Draw, based on a forthcoming Burt Reynolds television show, looks promising, as does its Max Back Talk electronic voice game retailing at $35 to $45, said buyers.

Chabot at Douglas wants to keep board game price points at under $10, with M-B's Jenga wooden cube game, Feed Me and the Disney Follow That Mouse and Light N' Learn games.

Board games ranked by units sold in 1986
(among a cross-section of large toy retailers)

Rank	Name	Vendor	Type
1	*Question of Scruples	Milton Bradley	Family board game
2	Monopoly	Parker Bros.	Family board
3	Wheel of Fortune	Pressman	Family board
4	*Rubik's Puzzle	Matchbox	Folding puzzle
5	Operation	Milton Bradley	Children's action
6	**Mousetrap	Milton Bradley	Children's action
7	Clue	Parker Bros.	Family board
8	Candy Land	Milton Bradley	Children's board
9	Bed Bugs	Milton Bradley	Children's board
10	*Pig Pong	Milton Bradley	Children's action

*New in 1986
**Restaged in 1986
Source: Toy Retail Sales Tracking Service, division of NPD Group

1986 Toy department highlights

Chain drug toy sales	$689,766,000
1986 percentage decrease	–1.64%
Percentage of total chain drug sales	2.28%
Typical gross margins	35%-40%
Industry profit yield from toys last year	$241,418,000 to $275,906,000
Average annual department turns	4.0

In preschool, Chabot will carry a line by Chicco that he can use as low-end blind items to balance out the Fisher-Price and Playskool offerings, and "make some markup." He will promote five sku's of Chicco at the same price in one ad to offer selection.

'Dynamite board games'

NationMark's Marcella expects new "dynamite board games" to generate profits for his customers, while several new toys should create seasonal excitement on promotion, he predicted.

"We feel there are some very good television-promotional items this year," Marcella said.

His customers need the TV-promoted items to create competitive images against such rivals as Toys "R" Us and mass merchandisers and to spur traffic—even though their limited assortments prevent them from being a market's primary toy outlet.

"In the fall of the year [our customers] suffer, but in the first 10 months, they're better in stock on a day-to-day basis, and they make money. There are a lot of birthday gifts bought in the year's first months," Marcella said.

NationMark supplies 95% of the toys carried by the Southwestern units of Skaggs Alpha Beta Supermarkets, Kroger, Albertson's and Tom Thumb/Page.

In the spirit of the back-to-basics year, Snyder Drugs will be weeding out licensed items, to emphasize money-making basics, carrying 40% to 50% margins, according to buyer Rick Burns.

Perry balances items

Perry Drug attempts to balance generic-type basics with a selection of knockoff items on hot branded products. "Nobody makes money on the television-promoted toys, so we try to take advantage of knockoffs," noted buyer Craig Seivert.

Perry wants to create uniform toy department sizes in all stores, refining sections that now range from 32 to 40 ft., up to a 32- to 36-ft. range. The paint selection for model toys will be pruned. Seivert sees growth in preschool assortments and has high hopes for Shel-Core Inc.'s First Sports, an inflatable goalpost and ball kit.

Chains generally entered the year seeking 40% margins from toy departments that stressed television-promoted toys, used as traffic builders, plus profit-making staples and year-round peggable impulse basics.

Blockbuster candidates

Can a blockbuster possibly emerge? Although no groundbreaking innovations surfaced at the Toy Fair, buyers said a group of toys with the right combination of play value and price are at least stirring memories of the excitement produced by the Cabbage Patch doll and Trivial Pursuit.

Mattel's Captain Power interactive video game is a candidate for toyland immortality, retailing from $26 to $40, some buyers felt. SupeRx will sell it at under $30, according to Lerch.

Kenner's Real Ghostbusters, the boys' and girls' action figures tied to a TV cartoon, showed evidence of revitalizing the action figure classification. "We've had good success in placing it," said Phil Chantron, sales manager at Chapman-Harkey Co., the Charlotte, N.C.-based wholesaler that supplies Kerr Drug.

Buyers warmed to Hasbro's Pogo-ball, retailing at $12.99 to $17.99, and to SilverHawks action collectibles based on the cartoon show.

"What we're seeing is a lot of new items we didn't have last year performing well," said Marcella.

1986 Toy department productivity

Category	Total sales (add 000)	% change	% of sales
Games	$126,045	3.61%	18.27%
Pegged toys	102,682	–2.70	14.89
Cars	89,482	–2.30	12.97
Boxed toys	87,764	1.42	12.72
Preschool	66,783	0.04	9.68
Plush	52,966	–5.71	7.68
Dolls	52,756	–6.03	7.65
Hobbies	38,728	–6.99	5.61
Miscellaneous/Seasonal	72,560	–3.95	10.52
Total	$689,766		100%

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Shutterbugs give photo departments sales snap

Fueled by big increases in photofinishing and film and videotape sales, photo departments in the nation's drug stores continued strong in 1986, although growth has slowed from prior-year levels. Sales at chain drug photo counters were up another 4.7% last year, to $1.29 billion, as drug chains and independents focused on the boom in 35mm amateur photography and home video.

The point-and-shoot 35mm camera has emerged as the camera of choice among a huge segment of amateur picture takers, eroding sales of both high-end single lens reflex (SLR) models and pocket disc and Instamatic cameras. The shift in the camera market is amply demonstrated by a survey of the photo market in 1986 by the Photo Marketing Association, indicating that easy-to-use, automatic 35s walked away with 37% of the market last year, up from about 23% the previous year.

Demand for the 35mm picture format from younger, more sophisticated shutterbugs has drawn a host of major suppliers into that end of the market, including Eastman Kodak, which abandoned 35mm a generation ago as too complex for the mainstream amateur photographer Kodak sought.

1986 Photo department productivity

Category	Total sales (add 000)	% of increase	% of sales
Film			
Still color	$294,777	11.02%	22.78%
Instant picture	154,131	9.09	11.91
Movie color	11,775	7.81	0.91
Still B&W	4,764	2.19	0.37
Processing	437,292	12.33	33.79
Flashbulbs/flash attachments	199,648	5.06	15.43
Cameras	130,581	6.98	10.09
Blank/Prerecorded videocassettes	61,095	8.89	4.72
Total	$1,294,063		100.00%

1986 Photo/Video department highlights

Chain drug photo/video sales	$1,294,063,000
1986 percentage increase	4.75%
Percentage of total chain drug sales	4.28%
Typical gross margins	20%-25%
Industry profit yield from photo/video last year	$258,813,000 to $323,516,000
Average annual department turns	9.0

Shift in demand

The fundamental shift in demand since 1980 was enough to change Kodak's mind, and last year, the giant unveiled two automatic 35mm non-SLR models for more serious mainstream shutterbugs.

Kodak, however, was joining an already-crowded field. More than 100 modestly priced non-SLR 35s are now available to mass market retail chains, including recent entries from Fuji, Ricoh and Canon. Drug stores have space behind the photo counter for a handful, at best, and most are opting for those with price points under $100.

Retailers must also find space for disc and pocket camera formats, none of which have gone away despite the 35mm boom. Although disc sales declined substantially last year, to 3 million, they continue to fill an important segment of the market. Even more important in the long run will be basic 110 and 126 models, combined shipments of which actually went up last year as a percentage of total camera sales, to 18.9% of the market, compared with 18% in 1985.

Another area of continued strength, especially in the mass merchandise arena, has been instant cameras. With the exit of Kodak from that market last year, Polaroid owns that segment, which last year accounted for almost 20% of camera sales and 17% of film sales nationally. The market was buoyed by the introduction of Polaroid's Spectra system.

The boom in 35mm photography, however, has been the major driving force in the photo market for several years. Demand among many amateur photo enthusiasts for an easy-to-use but higher-quality camera has also spurred the photofinishing market.

Success in photofinishing

Many chain and independent drug retailers have played successfully on the demands of 35mm users, marketing their photofinishing services more aggressively and taking a greater degree of control over their developing services. Some chains have gone from outside vendors to in-house developing labs, and several are moving ahead with in-store, one-hour mini-labs.

The thrust of such efforts, say retailers, is to gain greater control over the quality of finished prints and to enhance the store's image in photoprocessing. Price, although important, seems to be secondary to print quality, value and convenience.

"Photofinishing is a repeat business, and customers will remember convenience and quality before they remember price," noted Wynne Powell, photo merchandise manager for London Drugs Ltd., a leader in one-hour photoprocessing.

Photoprocessing sales were ahead more than 12% in drug chains last year, accounting for more than one-third of total photo department sales. The single biggest segment of the market, however, remains film. Americans took 13.9 billion pictures last year, according to the PMA. Drug stores remain the second most important outlet for film, with 24% of the market compared with 44% for mass merchandisers and 15% for supermarkets.

The past few years have seen the emergence of Fuji as a major and aggressive force in the film market. Kodak, which held a virtual monopoly over the color-negative film market a few years ago, has seen its share slip to 82%, while Fuji and other, more recent competitors like Scotch have gained ground with aggressive marketing efforts.

The emergence of 35mm as the dominant force in photography is illustrated by the shift in sales. More than half of the 731 million rolls sold to dealers last year were 35mm, according to the PMA. By 1990, 70% to 75% will be in that format, it predicts.

Home video boom reaps $61.1M in sales for chains

The home video revolution brought $61.1 million in additional revenues to the nation's drug chains last year, and with about half of all U.S. homes now equipped with VCRs, the boom in sales and rentals of videotapes shows no signs of tapering off.

For retailers, the good news in home video is that 40 million to 50 million U.S. television households have yet to buy a VCR, signaling enormous untapped revenues. The bad news is that competitors in the movie rental business have glutted most communities, and blank tapes can be purchased almost anywhere. It is a market whose intense competitive pressures and shrinking margins beg for a major shakeout.

Videocassette recorders penetration of U.S. households

1981	5%
1986	38

Source: 3M

3M estimates further that nine out of 10 U.S. households will own at least one VCR by 1995.

Growing competition

Despite the growing competition, however, most drug chains and many independents have been lured into the video market, either on an experimental basis, like Pay 'n Save or Walgreens, or as full-fledged market forces, like Rite Aid, Wellby Drug Stores and Longs Drug Stores. The advent of self-contained, self-service vending machines for the rental of movies via credit card has also helped draw new drug store entrants into the market on a risk-free, low-capital basis. Chains like Hook Drugs and many independents have begun testing video vending systems.

A variety of subscription-based rental programs is also available to drug stores without the resources to stock and manage their own movie rental departments. Such programs are now being offered by some drug wholesalers, including Durr-Fillauer.

What is proving irresistible to drug retailers in home video, despite the competitive pressures, is the sheer size and potential of the market. With the price of VCRs dropping well below $400 on average, and some models now available for $200 or less on promotion, millions more households will install movie machines this year. On average, those first-time purchasers will buy half-a-dozen blank tapes this year and will rent several dozen titles from a variety of units that offer convenient locations and competitive prices, like Rite Aid.

What programs will people buy on prerecorded videocassettes in 1988?

General movies	50%
Music	25
Children's shows	8
Adult films	6
How-to	6
Other	3

Source: CBS Fox Video

Retail distribution of blank videocassettes

	1985	1986
Discount department stores	21.9%	23.1%
Radio/TV stores	25.3	17.0
Drug stores	6.7	13.1
Video specialty stores	15.4	11.9
Grocery stores	4.4	8.2
Department stores	7.6	6.5
Catalog showrooms	5.7	4.8
Household appliance stores	6.0	4.0
Other	7.0	11.4

Source: 3M

While unit sales soared 44% to 311 million cassettes last year, mass market channels grabbed a dramatically larger share. Drug stores shot up to third place in unit sales of blank videocassettes.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Impulse items lead sales in general merchandise

General merchandise/sundry products' sales in 1986 were led by quick-turning impulse items, such as jewelry, sunglasses and batteries.

Often helped by cosmetics purchases, sunglasses managed to maintain increased sales in 1986, and drug stores accounted for 20% of the retail activity, according to the Sunglass Association of America.

Shoppers age 25 and under accounted for almost 50% of the total sunglass sales nationwide, as estimated by manufacturer Foster Grant. Drug store retailers agreed with this figure, suggesting that teen-agers—who seek to coordinate a total fashion look—in particular were big sunglass buyers.

At some Dart Drug stores, for example, the sunglass rack is positioned near the cosmetics area in order to play off the chances of this total or multiple sale look.

However, getting into the more fashionable styles—which are often subject to fad changes—is something some retailers said they try to avoid.

Average sale about $9.50

While many retailers increased sunglass sales through promotions on the typically $8 to $15 price range, chains with stores in more affluent areas—such as Austin Drugs' Long Island, N.Y., store—said they experimented with some $150 glasses.

However, the average selling price for sunglasses was about $9.50 for most chains.

Pantyhose/soft goods also were placed to take advantage of multiple sales at many drug chains, with retailers putting the category near cosmetics.

Jewelry and watches gained growing attention by drug store consumers as retailers reported steady sales. Fashion colors and a $5 average price were crucial selling points for earrings, which were the top-selling jewelry items. Although drug stores said the fashion correlation was important for jewelry, most said they stay away from the real trendy pieces.

Battery sales grew

Watches, too, had a fashion element, but more important was the strong sell-through of sport watches. The bulk of the business fell into the $20 to $35 range, with the Christmas selling season accounting for much of the volume.

Spurred by the need for batteries in radios, cassette players and recorders, battery sales increased more than 10% nationally during the past year. The consumer electronic category accounted for 32% of battery sales, while flashlights and toys/games accounted for 19% and 18%, respectively, according to a report by the National Family Opinion Consumer Purchase Diary.

Alkaline batteries surged in sales during the year, as more consumers turned to the longer lasting products. Studies show that the alkaline category could grow from a 62% share to 75% by 1990.

Mixed reaction to Kodak

Kodak also introduced its battery line, receiving mixed reaction from retailers. Several drug chains said they were hoping for something unique but found Kodak's selection similar to the offerings by Eveready, Rayovac and Duracell. However, some retailers said the Kodak name alone, combined with the bright packaging, worked to produce plus sales.

With the introduction of Kodak's line, battery competition among vendors heated up, giving retailers the benefit of lower prices, rebate offers and giveaways.

Other top-selling general merchandise items—particularly at the checkstand—were VHS tapes, playing cards and tennis balls.

*1986 General merchandise productivity**

Category	Total sales (add 000)	% of increase	% of sales
Sunglasses	$ 201,757	7.49%	16.65%
Pet needs	163,695	6.33	13.50
Sporting goods	137,434	2.48	11.34
Pantyhose/soft goods	213,363	5.22	17.60
Watches/bands	109,411	5.88	9.03
Home electronics	101,827	7.44	8.40
Batteries	170,912	9.34	14.10
Yarn/sewing notions	76,293	2.16	6.29
All others	37,419	3.85	3.09
Total	$1,212,111	100.00%	

*Reflects shift of giftware and vaporizers humidifiers to housewares.

1986 General Merchandise department highlights

Chain drug general merchandise sales	$1,212,111,000
1986 percentage increase	5.89%
Percentage of total chain drug sales	4.01%
Typical gross margins	35%-45%
Industry profit yield from general merchandise last year	$424,239,000 to $545,450,000
Average annual department turns	5.0

Sunglasses are quick sellers

Although sunglass sales peak in the spring and summer, the Sunglass Association of America (SAA) reports there is steady yearlong business. In fact, a study by the association showed that the off months account for about one-third of total sunglass sales.

On an index of 100 for the average month, sales in May rated at the peak with 140, closely followed by June (136), July (133) and April (123), according to the association's survey.

The lull in sales hits in November (63), December (64) and January (66), but February shows more volume, with a rating of 87. Despite this drop, the association said the mere fact that sunglasses continue to generate sales in the fall and winter months is a "revelation" and indicates that more retailers should keep sunglasses on display year-round to increase sales.

In 1986, over-the-counter sunglass sales reached a record level of $1.2 billion nationwide—the third year it topped the $1 billion mark, according to SAA.

An Eckerd store in a tourist part of Florida cross-merchandises sport sunglasses with fishing gear, showing a product mix tailored to local needs and an attempt to snare impulse sales.

Fay's merges its need to satisfy young mothers with baby-oriented general merchandise and its desire for high private label margins by selling store brand baby essentials.

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Chains growing more selective in housewares

Housewares grew by 2.8% in 1986 to $2 billion but declined slightly as a percentage of total drug chain sales to 6.6%, compared with 6.7% in 1985.

In one major trend, chains such as Fay's, Big B and Perry cut back selections in personal care, particularly hair dryers. They found they could maintain hair dryer sales, nevertheless, because consumers view them as substitutable commodities. Buyers, meanwhile, predicted that vendor efforts to meet the UL immersion requirements will hike hair dryer prices 3% to 6% and enable retailers to build up diminished profits, if they can hold margins.

Everyday houseware items provided 35% to 45% margins. Drug retailers typically emphasized branded flatware, bowls and utensils, microwave cookware and small kitchen appliances at under $10.

Rounds out store mix

"It's not a growth category. It's just something that rounds out your stores' mix," noted Marvin Gresham, president of Gresham Drugs, which carries unpromoted kitchen utensils, plastics and glassware at under $10. He also promotes rebates on Conair, Windmere and Clairol hair dryers.

Fay's found it could heavily cut back on hair dryer selection in its everyday department, yet maintain sales with just the Conair and Vidal Sassoon lines.

"These two were providing the numbers," said Fay's buyer Ernest Ross, who cut out lines by Norelco, Black & Decker and Sunbeam.

Ross said shoppers failed to respond to vendors' efforts in 1985 to differentiate personal care by marketing travel kits and his/hers combinations.

Fay's will carry Conair and Vidal Sassoon at an everyday retail of $12.99 to $16.99 while sponsoring in-and-out promotions of Clairol sku's at under $24.95 for Mother's Day, back-to-school and Christmas.

After culling out Vidal Sassoon, Clairol and Gillette from its personal care assortment, Big B will promote Conair as a traffic builder. "They're all made exactly the same," noted Big B merchandiser Paul Bruno. The chain can offer customers a net price of $3.99 combined with $10 in rebates, and still take a 23% margin, Bruno said.

Hair dryer selection

Perry also is consolidating its hair dryer section around three brands: Vidal Sassoon, Conair and Clairol, as it attempts to hold margins in the face of tough competition. "I think the consumer has seen a price point established, based on some of those rebates, and we're almost locked into that at this point," noted Perry buyer Mark Fournier.

Pay Less NW uses a broad selection of dryers which move well through regular promotion. It uses tilted shelving to show more than five lines, which it cross-merchandises with hair care toiletries, including permanent mixes and blow dry gels, according to several sources in Pay Less California stores.

"They smoke out of here," said one store manager, at prices of $6 to $8.99 after rebate.

Pay Less offers a generic line at $3 less than branded retail. Rix Dunnington in Massachusetts similarly uses the off-brand five-sku Zodiac line by Gemini to get 40% margins, compared to 30% on such brands as Shetland, Candies and Norelco, said buyer Jay Weiner.

Limited space and lack of a strong housewares image at drug stores have led to mixed results with microwave cookware. Pay Less NW has featured Nordicware and Anchor Hocking and promotes Rubbermaid at $12 to $22 for 10-piece set.

Mixed views on microwave

"We were in it real strong three years ago, but we were a little bit before our time," said Big B's Bruno. The stores are now limited to five sku's of Anchor Hocking at $5.99 apiece.

Rix Dunnington avoids microwave due to space constraints. Yet Douglas Drug has "hit pay dirt" with low-end Anchor Hocking in floor displays at $2.99 to $3.99 apiece—even though the chain failed to make profit headway in microwave ovens, when it carried a line for $99 on promotion. "It's getting to the point where there is no bottom. People were running [microwaves] at cost," said buyer Paul Chabot.

Pay Less has gained growth from cookware it advertises in coupon books, and displays in a 24-ft. counter. Lines include Regal cookware with SilverStone nonstick coating, Corning and Mirro.

Super D and Big B have logged brisk sales in small appliances by sticking with low end lines and promoting them, buyers said.

Big B tries to hit a price point under $9.99 in its small appliance section built around the Hamilton Beach brand. Bruno said the chain is looking to expand its small appliances, but a foray into mini-food processors this Christmas was disappointing. Big B also wants to expand its closet section.

Super D achieves steady housewares sales, in part, by carrying a low-end Hamilton Beach mixer at $14.88 and a Waring hand mixer at $8.88—which meet the utility and price needs of about 75% of its market's consumers, estimates buyer Gene Bailey.

1986 Housewares department productivity*

Category	Total sales (add 000)	% of increase	% of sales
Plastic and rubber housewares	$ 422,818	9.26%	21.11%
Personal care	219,750	−2.71	10.97
Household supplies	228,005	4.55	11.39
Small electrics	192,773	1.94	9.63
Glass/dishware/cookware	185,632	−2.43	9.27
Paper products	150,186	3.45	7.50
House & kitchen gadgets/ gourmet	113,784	1.22	5.68
Lighting products	92,375	2.31	4.61
Picture frames/mirrors	67,945	−2.54	3.39
Insecticides	62,799	5.71	3.14
Furniture/outdoor furniture	53,453	2.93	2.67
Plant/plant care	47,551	2.58	2.37
Bath/closet	36,411	3.70	1.82
Vaporizers/humidifiers	21,381	8.49	1.07
Giftware	25,848	−1.74	1.29
Miscellaneous	81,961	0.33	4.09
Total	$2,002,672	100.00%	

*Reflects shift of giftware and vaporizers humidifiers from general merchandise.

1986 Housewares department highlights

Chain drug housewares sales	$2,002,672,000
1986 percentage increase	2.84%
Percentage of total chain drug sales	6.63%
Typical gross margins	35%-45%
Industry profit yield from housewares last year	$700,935,000 to $901,202,000
Average annual department turns	3.0

Low-ticket plastics make up much of the housewares section in this Raleigh, N.C., Eckerd unit, which also emphasizes convenience with a microwave cookware assortment.

Bendable rollers fuel growth in personal care
(Manufacturers' units shipped in millions)

	1984	1985	1986	1987*
Curling brushes	2.2	2.2	2.3	2.4
Curling irons/wands	6.2	6.0	7.0	7.0
Pistol hair dryers	14.6	14.9	15.4	15.6
Styling hair dryers	5.4	6.0	6.1	6.5
Hair setters	3.1	3.0	3.2	3.7

Source: Conair Corp.
*Estimated

THE 1987 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

1986 Do-it-yourself department productivity			
Category	**Total sales (add 000)**	**% of decrease**	**% of sales**
Hardware	$178,398	–5.39%	44.61%
Automotive	161,793	–6.61	40.45
Paint/paint supplies	59,766	–4.66	14.94
Total	$399,957	100.00%	

1986 DIY department highlights	
Chain drug DIY sales	$399,957,000
1985 percentage decrease	–5.78%
Percentage of total chain drug sales	1.32%
Typical gross margins	35%-45%
Industry profit yield from DIY last year	$139,985,000 to $179,981,000
Average annual department turns	3.0

At Fay's, which counts heavily on general merchandise sales, the automotive run includes a complete waxer/cleaner assortment.

Drug stores look to reposition DIY departments

Drug chains are reassessing do-it-yourself. While it offers convenience to shoppers, it doesn't support stores' health care images.

For instance, Perry Drugs took a strong position in saying it will cut back on automotive, hardware and other nondrug departments within its drug stores to help clarify its health image. They don't want to be confused with department stores or deep discounters.

The plan involves segregating the 2,500 to 3,000-sq.-ft. automotive and hardware shops that have been paired with drug stores, by closing off entrances or folding merchandise into Perry's freestanding auto parts stores.

But the drug stores will retain inline automotive and hardware sections of 12 ft. to 16 ft. to preserve the convenience its customers have come to expect. Also, sales are good, according to Perry buyer Robert Heather.

Total drug store DIY sales were less impressive, dropping 5.8% to $400 million in 1986 from 1985's $424.5 million. They account for only 1.3% of total sales.

Kerr Drug is among chains reassessing hardware, automotive, lighting and electrical departments. "It seems to me that the category is not progressing a great deal," said Kerr buyer Dan McAlister.

Kerr, re-evaluating its mix, may downgrade some lines such as tools. It has carried the high-end Vermont-American handtool line but is now thinking a lower-end may be more appropriate. It will review an import program of such items as hand tools and gloves that its stores could offer on an in-and-out basis in dollar-day type promotions and circulars.

While the 16 ft. of hardware, 20 ft. of automotive, eight ft. of light bulbs and four ft. of electrical are in a high-traffic first aisle site, McAlister feels the sales momentum may have been slowed by competitors such as Hechinger's home center chain, which stays open on Sundays.

By staying competitive in price with hardware stores and by recently expanding selections in hardware, Tom Thumb/Page has grown DIY sales in departments in its combos and freestanding drug stores, said buyer Ray Martin.

Targets female shoppers

In 8-ft. to 12-ft. drug store departments—expanded from 4 ft.—and in 48-ft. to 60-ft. food store sections, Page has been honing in on the female shopper, with more attention to fashion and a change in promotional tactics.

"We've gotten a little creative," said Martin, noting that some fashion-colored hooks and refrigerator magnets were added. Also, the emphasis is on packaging with easy, how-to-use directions for consumers.

In expanding the drug store selection, Page added a four-ft. emergency plumbing center.

Page's hand tool assortment is built around a mid-priced line with as much variety as possible for $2 to $10.

In promotions, Page now offers kits for plumbing repair and painting, rather than single items, supporting the do-it-yourself image.

Promotes frequently

"Even though you think the promotions might not be a draw, it's important to promote frequently so the customer will know you are in the business," Martin said.

Chains with limited selling space feel they can do without DIY altogether. Rix Dunnington, with stores of 6,000 sq. ft. selling space, has avoided the category, as has Happy Harry's, with stores of similar size.

"We would have to have a 10,000-sq.-ft. store to carry those categories. You can't get away with less than a 24-ft. department," said Pat Triboletti, vp-merchandising at Happy Harry's.

The Owl Drug chain in upstate New York overcomes the size hurdle by carrying products on an in-and-out seasonal basis. It also uses a co-op buying program that allows better margins than it could obtain through a conventional wholesaler, said vp Bill Fleming.

Owl displays 12 to 20 ft. of building and repair-related items in the spring and an energy conservation theme in the fall. "But I've got to take it out by Nov. 1 to make room for Christmas," said Fleming.

Owl buys through a co-op service, which gives it easy access to products from many manufacturers. The service also handles billing for a total 2% upchange.

On the bright side, drug stores claimed a bigger piece of the automotive aftermarket—24.1% in 1985 among retailers who aren't auto parts stores—according to *Home and Auto* magazine.

Drug chains, through their automotive departments within drug stores, were the only nonautomotive sector to increase share, up 1.1%. Food chains accounted for 34.7%, and hardware chains, 32%, the magazine said.

Adhesive tapes and glues are an integral part of the do-it-yourself statement in this Raleigh, N.C., Eckerd store.

Extensive mix of engine chemicals, filters and automotive accessories at Osco, Aurora, Colo., rivals the variety at discount stores.

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Pharmacy has a bright future

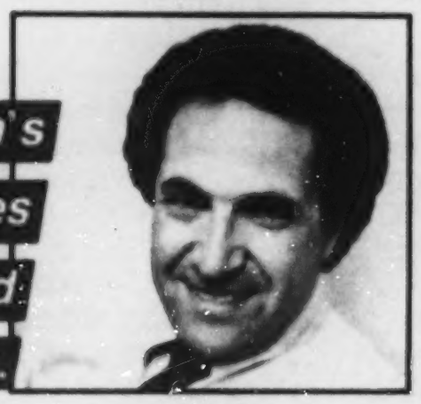
Drug Store News has just completed its Annual Report of the Chain Drug Store Industry (if you are a paid subscriber, you have Part II in your hands right now), and even if you're not a chain pharmacist, what it contains will, I think, leave its imprint on the entire pharmaceutical community.

Reports of this magnitude offer pharmacists and retailers alike a peek at the future. If, by chance, you are not already a subscriber, perhaps I can offer you a recap of what I saw as some of the highlights in 1986 and their impact on the profession of pharmacy.

Overall, I have to say that 1986 wasn't a bad year for the profession. The report shows a nearly 11% growth in prescription sales, still the highest of any department in the store, proving to me, once again, the importance of attention to key core departments.

Traveling around the country, visiting with chains and independent pharmacists, I can say with some authority that the professionalism is back. Pharmacists are once again practicing pharmacy the way it was meant to be practiced, and the nicest thing is, it appears that the chains are encouraging it.

Cohen's Capsules
Harold Cohen, R. Ph.



I saw more pharmacists utilizing their time in counseling patients, thanks, in part, to sophisticated pharmacy computerization. I visited independents who are spreading their wings into other areas of the profession where their talents can be put to better use.

The report also revealed that it was a banner year for the branded drug industry, with new introductions up over 20% from the previous year. That's good news for both pharmacists and consumers. New prescription products allow physicians to treat a wider array of diseases, and that translates into an increase in business for the pharmacist.

The report from the generic sector wasn't too shabby either. A day doesn't go by that my desk isn't loaded with press releases reporting on new generics coming into the marketplace. Analysts predict that, in the next decade, generic sales could top the $3 billion mark. I think that's also good news for pharmacists. It allows them to compete in a market that was once dominated by higher-priced branded products.

But through it all, pharmacists have had to face some difficult problems; a few, I'm afraid, will not evaporate quickly . . .

Physician dispensing is on the rise and spreading. Doctors in many parts of the country are embracing the idea because of dwindling customer bases that are going to HMOs and "doc in the boxes." I don't care what the F.T.C. says, physician dispensing is proliferating for one reason only—economics. Physicians see it as an easy way to make a buck. It's a problem for pharmacy.

But I personally believe that physician dispensing will be short-lived, because there is no physician practicing today that can offer consumers more for their prescription dollar than the pharmacist. Ultimately, it will be those very consumers who will turn their backs on physician dispensing.

Another serious problem that some pharmacists face is the growth of exclusive third-party contracts. Again, I believe that the pharmacist will eventually come out on top because the consumer just won't stand for having his freedom of choice stripped away.

On a more positive note, pharmacists in Florida have begun prescribing. Even though our studies show that many are not participating in the program, I don't think it will remain that way. I predict that the formulary will be expanded to emergency doses of more potent drugs like antibiotics and analgesics. Even though I believe that pharmacists' prescribing on a limited basis is good for the profession, I would not want to see pharmacists taking the place of physicians on the prescribing scene.

Overall, I'm encouraged with what we have to report on the state of pharmacy in 1986. I think pharmacy has a bright future if only pharmacists do not ignore the warning signs that could spell disaster.

LETTER

I have had many patients who have said categorically that they would not trust a physician who dispenses. They may use him for an emergency prescription, but that's it. The treatment a physician would offer would be mediocre at best due to conflict of interest. Monetary considerations and minimal inventory would result in "minimal" treatment. To think otherwise is foolish.

A physician is not going to invest in new and better drugs on the market. He will not even look at them because he has to worry about all the money he would have sitting on his shelf. It's just human nature. To think otherwise is naive.

The story is quite different with counter-prescribing by pharmacists, because it is usually an interim treatment and without appointment.

The bottom line is patients here say (and I agree) . . . Do not trust a physician who dispenses.

Nadir Jamal, *pharmacist, Brechin Pharmacy, Ontario, Canada*

Pharmaceutical industry leaders attend NWDA annual merchandising conference in New Orleans. Photos on page IP8.

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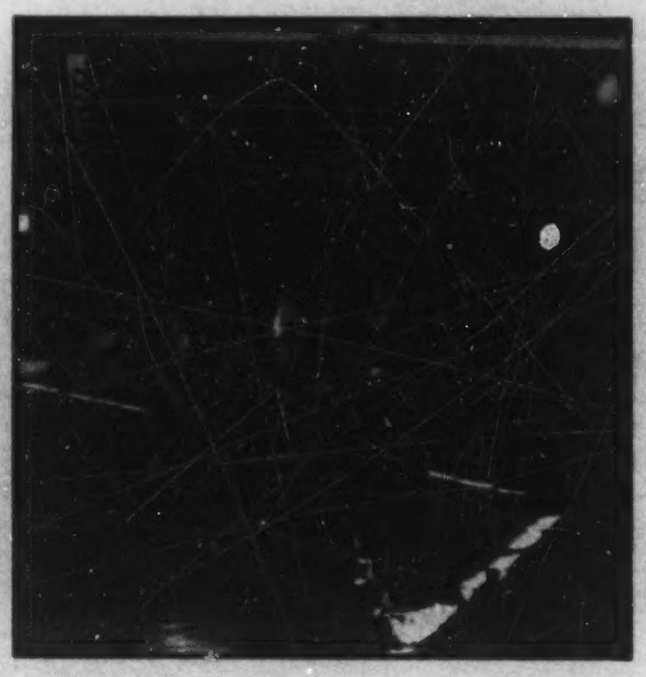

Medical Malls: A vision of the future

Medical City Dallas occupies a 40-acre site in Dallas' commercial Park Central. Approximately 3,000 people enter the mall daily to see the 400 doctors whose offices are housed there, or visit someone in the mall's 545-bed hospital.

The medical mall represents a whole new way of delivering health care in this country, and barometers point to its continuance. Learn what goes on behind the walls of one of these malls and where you can expect to see more built in the future . . . . . p. IP11

FEATURE

OTC Buyer Feedback Study . . . In an exclusive survey conducted by *Drug Store News*, buyers of OTC products reported that manufacturers' reps are making their visits often enough, but the information they provide is inadequate . . . . . p. IP25

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Special Report: OTC Buyer Feedback Study

INSIDE PHARMACY

OTC buyers: Vendor info, service inadequate

Independent and chain OTC buyers who are regularly visited by manufacturers' representatives are not getting the level of information and services they consider important in making purchasing decisions.

In fact, according to a just completed survey of 59 top dollar-volume chains and independents conducted by *Drug Store News*, service information levels have actually declined over the past year, even though OTC sales representatives are doing a fairly good job of making their visits.

Visits adequate

An overwhelming majority (80%) of the OTC buyers said they were satisfied with their current visitation schedule. Only 12% wanted more frequent visits.

Most (86%) said they saw a manufacturer's rep twice a year or more often, with nearly one-third reporting that a visit "more than once a month" was the most common. The remainder said they were visited monthly or once every two to six months. Eight percent said they were visited once a year, and 2% cited less then yearly visits.

The study revealed that, for the most part, the reps are visiting both indys and chains to the buyers' satisfaction. Virtually all (96%) the chains claimed visits twice a year or more often, while a smaller percentage of the independents (77%) claimed the same. Based on number of months per visit, the chains showed a clear advantage.

On average, the chains were visited once every 1.8 months, whereas independents saw manufacturers' reps considerably less often—once every 4.3 months.

The survey found that although the buyers are generally satisfied with the frequency of visits, the reps are not making the best of their time with the buyers.

Information lacking

In a similar study conducted last year, buyers agreed that service from OTC manufacturer reps was not what it should be. This year's study revealed that those same service levels, according to the buyers, have declined further.

Buyers were asked to rate the importance of 15 types of services provided by manufacturers' representatives during their visits. The information was categorized into four main groups: merchandiser promotions, consumer promotions/advertising, obtaining information and miscellaneous services.

Only five of the 15 specified services showed improvement over 1986 ratings, while satisfaction in all other areas has declined. In fact, no one service received a top box rating by a majority of the respondents this year.

Of all the categories of services provided by reps, merchandiser promotions was chosen by 90% of the buyers as being the most important in their decision to purchase and stock a particular brand of OTC. The second most important (85%) was obtaining information (including new products, regional market shares, product movement, etc.). The third category was miscellaneous services (such as invoice dating, planogramming), chosen by 76% of the buyers. Consumer promotions/advertising was considered least important.

Merchandiser promotions

The single most important service to buyers offered by OTC manufacturers is their return goods policy.

According to the survey, both the chains (86%) and independents (77%) gave high marks to this service as figuring heavily in their decision to purchase product.

In other areas of merchandiser promotions, the chains and independents were not as close in their responses.

In discussing display allowances, 72% of the chain buyers considered this "very important," compared with 30% of the indys. There was even a large disparity in case allowances (59% considered very important by chains, 13% by independents) and new display materials (21% for the chains, 17% for the independents).

Obtaining information

Obtaining information concerning new products was the second-highest-rated service overall by both chains and independents.

The independents (80%) reported they were thirstier for this kind of information than the chains (69%). Other information that both the chains and independents felt was "very important" in their decision to purchase and stock a particular brand included, in decreasing order of importance: regional market share, product movement and consumer consumption/usage patterns.

As one would expect, although national market share information was low on the list of types of information found helpful, it was of more interest to the chains (28% ranked it as "very important") than to the indys (only 7% thought it "very important").

Consumer promotions/ads

Overall, consumer promotions/advertising was ranked as the third most important area of service by both the chains and independents. But because of the heavy dependence on consumer promotions by the chains, significant differences on how the two retail segments answered this question were apparent in analyzing the data.

Upcoming consumer ad campaigns and promotions were considered "very important" by 79% of the chain respondents, compared with 23% of the independents. Oth-

Continued on page IP31

Services rated "very important" in decision to purchase and stock a particular OTC product

	Total % respondents	Type of company: Drug chain % respondents	Type of company: Independent % respondents
Merchandiser promotion	**90%**	**97%**	**83%**
Return goods policy	81	86	77
Display allowances	51	72	30
Case allowances	36	59	13
New display materials	19	21	17
Obtaining information	**85**	**86**	**83**
New products	75	69	80
Regional market share	30	38	23
Product movement	30	34	27
Consumer consumption/usage patterns	24	24	23
National market share	17	28	7
Consumer promotional advertising	**71**	**90**	**53**
Upcoming consumer ad campaigns and promotions	51	79	23
Co-op advertising	48	76	20
Consumer rebate program	29	41	17
Cents-off consumer coupon programs	25	24	27
Miscellaneous services	**76**	**86**	**67**
Invoicing dating	64	69	60
Planograming	25	28	23

Source: Lebhar-Friedman research

Pricing strategy in average OTC department

	Type of company: Chain	Type of company: Independent
We stay competitive with other drug stores in our market	52%	87%
To bring shoppers in, we rely on sales and low promotional prices rather than low everyday prices	21	17
We rely on everyday low prices with little or no advertised sales	10	3
We are never undersold	7	--
We have a full service/full price orientation	7	13
Don't know/ no answer	7	--

Note: Percentages may not add to 100% due to rounding.
Source: Lebhar-Friedman research

Vendors' return goods policy gets top priority

Probably the No. 1 question asked by manufacturers' reps when introducing a new OTC product to retailers is, "What can I do to influence this buyer to put our product on his shelves?"

According to an overwhelming majority (83%) of chain and independent buyers interviewed by *Drug Store News*, the single most important factor in their decision to take on a new OTC is the company's return goods policy.

The second most important area overall that retailers look at is the availability of the new product.

Other factors that were rated "very important" in making a decision to take on new OTC products include, in descending order:

- Off-invoice allowance
- Dollars budgeted for consumer advertising
- Types of media used to teach new consumers
- Detailed information about the product
- Display allowances
- Consumer promotion programs
- Co-op advertising
- Innovative quality
- Suggested retail price
- Number of sku's

While the chains and independents agreed in most areas on importance, the one area in which there was a great difference of opinion was "detailed information about the product." The independents thought it should rank as the second most important factor, whereas the chains considered that item of little importance, ranking it sixth.

Factors affecting decision to take on new OTC product introduction

	Total % respondents	Type of company: Drug chain % respondents	Type of company: Independent % respondents
Dollars budgeted for consumer advertising	83%	83%	83%
Availability	64	69	60
Off-invoice allowance	59	79	40
Dollars budgeted for consumer advertising	54	83	27
Types of media used to reach new consumers	52	76	30
Detailed information about product	51	34	67
Display allowances	48	66	30
Consumer promotion programs	42	62	23
Co-op advertising	37	55	20
Innovative quality	37	52	23
Suggested retail price	36	34	37
Number of sku's	29	45	13

Source: Lebhar-Friedman research

INSIDE PHARMACY

Special Report: OTC Buyer Feedback Study

Poll: Chains, independents strive for product variety

Despite a continuing industrywide shift of OTC products away from traditional drug store shelves to more nontraditional retail settings, chains and independents surveyed by *Drug Store News* reported aggressive advertising and pricing strategies for the OTC product category.

According to this year's OTC Buyer Feedback Study, more than three-quarters of the chains and independents polled said they "carry most of the major brands and sizes available to give shoppers a broad variety of selection."

Only 20% "carry at least three to five brands in the major OTC categories," and a slim 5% responded they "carry only the No. 1 and No. 2 brands in most OTC categories."

More than half (59%) of the sample said that their pricing strategy was to "stay competitive with other drug stores in our market."

Just under one-fifth (19%) said they build traffic in their stores by relying on "sales and low promotional prices rather than low everyday prices."

OTC product advertising

Only 8% said, "We have full service/full price orientation." Nearly the same amount (7%) said they "rely on everyday low prices, with little or no advertised sales." Only 3% said they base their pricing strategy on never being undersold.

More than three-quarters of the total number of buyers surveyed said they advertise OTC products once a month or more—no change from last year's survey results.

But the study showed that the frequency of OTC product advertising over last year has increased slightly.

This year, 44% of the buyers reported that they advertised OTC products once or twice a *week*, compared with 45% who last year responded that they advertised once or twice a *month*.

As one would expect, chains, with generally higher advertising budgets than the independents, advertise more frequently (66% vs. 23% in 1987, compared with 50% vs. 20% last year).

The survey showed that there has been an increase in the ratio of OTC to total products in print ads, especially among the independents. In 1986, OTC products comprised an average of about 54.2% of the total products featured in an ad, compared with 1987, in which the ratio increased to 66%. Independents reported that in this year's ads, OTC products account for approximately 78% of total products, compared with a 1986 average of 58%.

OTC sales history

Both the chains and independents reported a 10.9% increase in OTC sales in 1987, compared with an increase of 10.5% in 1986.

But more respondents reported a decrease in OTC sales than last year. In 1987, 17% of the buyers surveyed said they saw their sales drop, compared with 7% who said the same thing last year. Only 3% reported that OTC sales were flat this year, compared with 10% reporting flat OTC sales in 1986.

Why the increase in sales?

One-third of the buyers pointed to pricing strategies as the reason for the jump in sales. Increased prices were cited by 18% of this group—more than twice as many respondents who gave this reason in 1986. Consistent with 1986 responses, 11% cited a lowering of prices (leading to increased volume) as the major reason for the increase in sales; 28% said more or better advertising promotions or displays; 24% credited increased sales/inventory or population; and 26% said they felt the increase in sales was due to new product introductions/more OTC items available.

The buyers said OTC sales were responsible for an average of 24.5% of their total annual dollar volume. Independents were only 1% higher than the chains.

Space allocation

More than half of the buyers said the space allocated to OTC products remained the same over last year, but 42% said that space had increased at an average of 9.3%. Only 8% said that space had decreased.

Again, as one would expect, the larger chain stores were more likely to answer that space allocation had increased. More than half of the chains (58%) said they increased their OTC allocation, while only 23% of the independents reported an increase.

How buyers describe their product category mix

	Type of company	
	Drug chain	Independent
Carry most of the major brands and sizes available to give shoppers a broad variety of selection	79%	70%
Carry at least three to five brands in the major OTC categories	21	20
Only carry the No. 1 and No. 2 brands in most OTC categories	—	10

Source: Lebhar-Friedman research

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** From a national marketing study. Data on file, Reed & Carnrick, 1986.
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OTC Buyer Feedback Study

INSIDE PHARMACY

OTC buyers want more info

Continued from page IP25

er services included, in descending order: co-op advertising (considered "very important" by 76% of the chains and 20% of the indys), consumer rebate programs (41% chain response, 17% independents) and cents-off consumer coupon programs, considered least important by both groups (24% chains, 27% independents).

Miscellaneous services

In the last segment, miscellaneous services, only two areas of service were indicated: invoice dating and planograming. The chains and independents were about even in ranking their importance in the buying decision.

Invoice dating was considered much more important than planograming, with 69% of the chains and 60% of the indys pointing to this service as "very important." Planograming got only 28% of the chain's vote, compared with 23% from the independents.

1986 vs. 1987 satisfaction levels

The five areas of overall (both chains and independents) improved service information were display allowances, case allowances, product movement information, new product information and consumer rebate programs.

Product proliferation

For two years in a row, buyers gave low grades to manufacturers in terms of helping them reduce product proliferation.

Roughly half of the buyers (48%) said the reps were only average in their help to curb product proliferation (48% in 1986 and 42% in 1987). Only 24% (22% in 1986) rated the manufacturers' reps as "outstanding/above average" in this area, and almost a third (34% in 1986, 30% in 1987) found the reps "below average or poor."

Current and desired frequency of seeing manufacturers' representatives

	Drug chain		Independents	
	Current	Desired	Current	Desired
More than once a month	31.0%	31.0%	33.0%	27.0%
Once a month	41.0	38.0	17.0	17.0
Once every 2-6 months	24.0	24.0	27.0	47.0
Once every 7-11 months	3.0	3.0	3.0	—
Once a year	—	—	17.0	3.0
Less than once a year	—	3.0	—	3.0
Don't know	—	3.0	—	3.0
Mean number of months per visit	1.8	1.9	4.3	3.3

Note: Percentages may not add to 100% due to rounding
Source: Lebhar-Friedman research

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Best Selling Categories of Winter

The chart below lists the best selling categories in food stores for the months of December, January and February.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ended in December 1985, and January and February 1986.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.

FOODS AND GROCERIES: BEST SELLERS OF WINTER

(Averaging three year index ranking)

December

Foods	Index ranking
Canned cranberries	374
Novelty candies	326
Dates	259
Baking nuts	250
Canned onions	240
Packaged chocolate covered fruits	236
Piecrust mix	214
Corn Syrup	213
Canned potatoes	210
Packaged solid chocolates	207
Brown sugar	202
Stuffing mixes	199
Maraschino cherries	194
Chocolate creams	193
Dry yeast	189
Marshmallows	185
Coconut	183
Baking chocolate	180
Pie fillings	179
Packaged hard candy	179
Croutons	174
Confectioner's sugar	174
Ripe olives	172
Sterilized milk	170
Cider	166
Molasses	165
Spanish olives	165
Nonfoods	
Heatable bags & wraps	285
Fireplace logs & bricks	257
Disposable containers	167
Rock salt	164
Coffee makers	156
Rodenticides	142
Flash bulbs	138
Batteries	131
Oven cleaners	125
Aluminum foil	124

January

Foods	Index ranking
Maraschino cherries	249
Dates	249
Cake decorations	238
Coconut	206
Corn syrup	202
Molasses	200
Baking chocolates	192
Cream of tartar	191
Canned meats	191
Cake flours	180
Confectioners sugar	177
Baking nuts	175
Brown sugar	170
Cocoa	166
Baking extracts	164
Spanish olives	160
Chili sauce	158
Cider	157
Canned onions	157
Canned dry beef	147
Cocktail mixes	147
Canned sauerkraut	147
Canned shrimp	144
Canned cherries	144
Dried apricots	140
Canned cranberries	144
Canned beans	134
Nonfoods	
Rock salt	344
Fireplace logs & bricks	330
Flash bulbs	213
Batteries	156
Heatable bags & wraps	149
Waxed paper	143
Disposable containers	142
Coffee makers	134
Plastic flatware	120
Light bulbs	113

February

Foods	Index ranking
Packaged chocolates	155
[illegible]	149
[illegible]	147
[illegible]	145
[illegible]	138
[illegible]	137
[illegible]	136
[illegible]	134
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Mass Merchandising Groceries

Promotional activity sparks grocery product sales in drug and discount store outlets. Grocery sales will top $10 billion in 1987

Grocery sales in nonfood outlets are expected to increase about 6% this year to an estimated $10.2 billion market.

Grocery product sales through drug, discount and general merchandise and variety stores, which rose 5% in 1986 to an estimated $9.6 billion, are expected to go up about 6% in 1987 to approximately $10.2 billion.

The growth is due to the aggressive use of food and grocery related promotions as traffic builders as well as to expanded assortments of snack and convenience dry and refrigerated grocery sections in drug stores, and expanded space for snacks, household chemicals and other grocery related departments in discount stores.

Right now drug stores generate the bulk of grocery related sales in the mass market arena. According to *FM* estimates based on an analysis of Dept. of Commerce merchandise line sales trends, drug stores in 1986 generated nearly $4.8 billion in grocery product sales in 1986 or close to 50% of all grocery sales in nonfood stores.

Discount stores, for the same period, generated about $2.7 billion in grocery product sales while general merchandise, variety and department stores captured the remainder of the sales, about another $2.1 billion.

Our estimates include sales of packaged grocery items like cereals, salad dressings and cake mixes as well as sales of candies, packaged alcoholic beverages, pet food items, soaps and household cleaners and detergents as well as paper goods like toilet and facial tissues.

However, they exclude the sales of soft drinks and snack foods like potato chips that are store delivered rather than warehoused.

In the mass merchandise retail segment, drug chains are doing

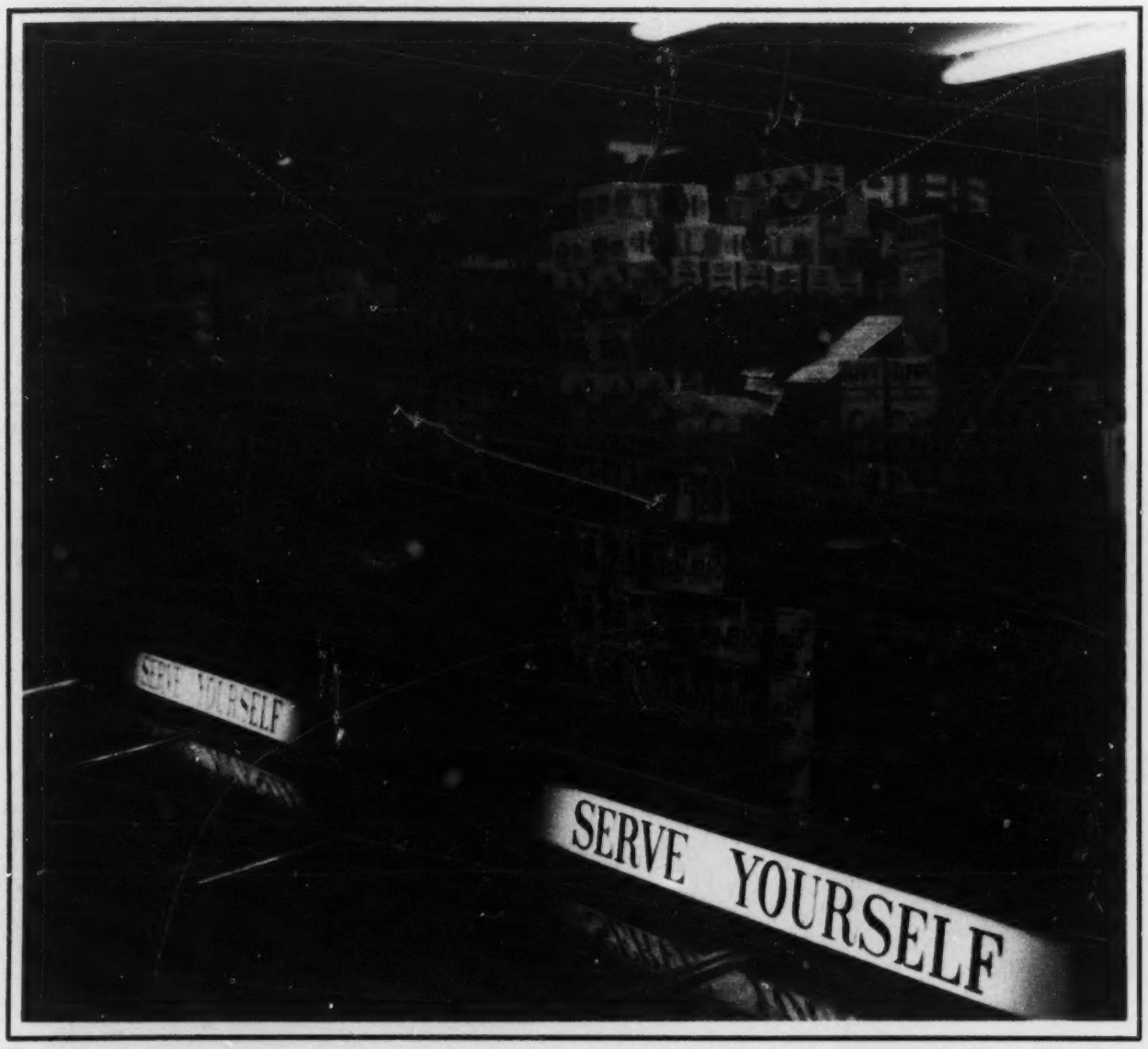
*General Merchandise Stores: Grocery Sale Trends

(retail sales in billions)

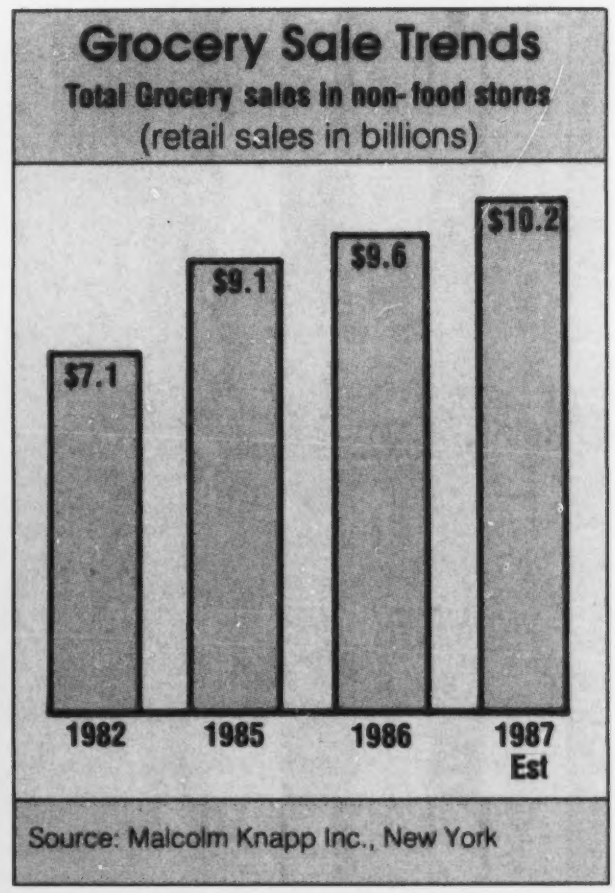
Category segment	1982	1985	1986	1987 Est
Packaged groceries excluding direct store delivered snacks	$3.1	$3.5	$3.5	$3.5
Packaged alcohol	$0.426	$0.733	$0.833	$0.926
Paper goods	$.0154	$0.269	$0.297	$0.335
Soaps/Household cleaners	$0.079	$0.105	$0.112	$0.119
Pet foods	$0.052	$0.066	$0.095	$0.103
Total grocery sales	$3.8	$4.7	$4.8	$5.0

*Discount stores account for approximately 56% of all general merchandise grocery sales. The rest is generated in department stores, variety stores & miscellaneous general merchandise stores.

Source: Malcolm Knapp Inc., New York



Drug store operators stress that their everyday food assortments are a "convenience" to their customer.



Drug Stores: Grocery Sale Trends
(retail sales in billions)

Category segment	1982	1985	1986	1987 Est
Packaged groceries excluding direct store delivered snacks	$1.2	$1.6	$1.8	$1.9
Packaged alcohol	$1.2	$1.6	$1.7	$1.8
Paper goods	$0.492	$0.828	$0.936	$1.1
Soaps/household cleaners	$0.254	$0.323	$0.345	$0.371
Pet foods	$0.032	$0.051	$0.056	$0.062
Total grocery sales	$3.2	$4.4	$4.8	$5.3

Source: Malcolm Knapp Inc., New York

more to expand their everyday assortments of snacks and convenience groceries while the majority of discount chains are concentrating more on using groceries and grocery related items such as household chemicals and laundry detergents as traffic builders.

Discount store retailers are telling *FM* that they can't compete with food stores or warehouse clubs or deep discount drug stores on packaged groceries unless they feature "price, price, price."

"Our shoppers just don't see our stores as a convenient place to pick up groceries," said one K mart manager. "We can get high velocity movement on packaged grocery products, but only when we feature them at super hot prices. That means we're mostly featuring groceries that we buy on deal and promote at margins usually less than 10%."

Discounters stress in-and-out promotions

In the last few years, with the exception of Wal-Mart and Venture, the major discount store chains have begun to cut back their permanent everyday sections of packaged dry grocery items to concentrate more on in-and-out promotional foods especially cereals, cake mixes, summer and winter beverages, salad dressings, jellies, pickles, etc.

K mart, for example, which used to carry a number of permanent planogramed packaged grocery items through its distribution centers, is now primarily just stocking promotional foods that the chain only features on an in-and-out basis.

At the same time, K mart is also giving more store space and more promotional emphasis to its candy and other snack food lines as well as to paper goods and household cleaners and soap.

"We still promote packaged groceries," said a K mart source, "but not as intensely as we once did. Today our ads put a much greater emphasis on candies and other types of snack foods, and we still do a very strong job of advertising paper goods and household cleaners."

Drug chains stress everyday convenience

Meanwhile, the drug chains are becoming more committed to convenience foods as a "core category" and many chains are discovering that they can carry select packaged and refrigerated groceries every day and promote them not just as a traffic building value but as a convenience and service to the local neighborhood.

Walgreen's, which now has c-food sections in some 400 of its 1,200 stores, has had the most success with this style of merchandising, but chains like Eckerd Drug in Clearwater, Perry Drug in Pontiac, Mich., Longs in Walnut Creek, Calif., SupeRx in Cincinnati, K & B in New Orleans, Pay 'n Save in Seattle, etc., are also continuing to expand convenience food assortments.

The drug chains are also continuing to promote packaged groceries, paper goods, soft drinks, pet foods

and soaps and cleaners extensively, plus those chains that carry alcoholic beverages are doing a much more aggressive job merchandising that category.

Drug store retailers like Al Nehman of Dart, Don Gross at Genovese, Gary Lefferts at Austin Drug, all speak of promotional groceries as "traffic builders," designed to "provide an added incentive for people to shop our stores."

Most of the drug chains don't give permanent sections to their promotional groceries, instead they usually merchandise them on endcaps or in the high traffic promotional aisles sometimes referred to as Bargain Alley's and they often display their best buys in cut cases.

"We price so competitively on the grocery consumables," says a People's manager, "that we don't usually have a problem with residuals. They come in the store and within a few weeks, they've blown out and we've brought something else in."

"We advertise grocery items every week," says Al Nehman, sr. vp of merchandising for Dart Drug in Landover, Md. "We pioneered promotional groceries in the drug trade.

"And because we don't just dabble in this type of advertising, we've been able to maintain a nice steady market share growth pattern in what I think is one of the most competitive markets in the nation."

Snacks: growth area

By far, the biggest growth area for the grocery products in nonfood stores today, however, is snacks. Both the drug and discount store retailers call their snack food department one of the most "undeveloped" high potential profit and traffic building departments in their stores.

"Snacks are what we're pushing the strongest," says a Walgreen's source. "We advertise some four or five candy items every week in our circulars and we do almost as much with nuts and cheese balls and items like that." "Most shoppers don't think of drug chains or discount chains when they want snacks and candy," says one drug chain food buyer, "but Walgreen's has such an extensive snack and candy department and they promote it so much that their shoppers think of that area as a key department in the store."

Sources at Wal-Mart, K mart, Zayre's and Venture make similar observations.

The discount chains also make their snack food departments highly visible to their shoppers, almost always locating them in the front of their stores, and snacks are featured in just about everyone's ads.

"Everybody will tell you that incremental sales are becoming harder and harder to get," says a source at Wal-Mart.

"Our strategy is to go after the traffic and low everyday prices on our consumables, plus to make the higher turning snacks like candies and soft drinks very visible in our stores."

Both the drug and the discount store retailers also point out the difficulties they are having today in maintaining strong year-to-year growth in sales in existing stores.

"People can only buy so much toothpaste or so many radios or televisions," says a Venture manager. "But if they see groceries or snacks at a good price, they'll buy on impulse and they often buy multiples which gives us a better average sale.

"If you ask me why so many of us are getting into groceries, that's the answer. They create the traffic. They create impulse sales, and they help us generate the year-to-year sales growth we need in order to be successful."

America's Best Selling Foods: Popular Promotional Items

- **Honey roasted nuts of all the major brands, Fisher, Planters, Eagle Snacks;**
- **Conventional cakes, mixes and frostings especially Betty Crocker and Pillsbury;**
- **Microwavable cake mixes like the new Pillsbury Microwavable cake mix;**
- **Breakfast cereals like Total and Wheaties;**
- **Summer Beverages like Gater Aid (Quaker), Lipton instant teas, Nestle's instant teas, Hi-C juice drinks, etc.;**
- **Soft Drinks especially Coke and Pepsi;**
- **Beers especially Coors, Bud, Miller, etc.;**
- **Dog food especially Alpo, Carnation, Ken L Ration in large sizes and cans;**
- **Cat Foods especially Puss 'N Boots, Tender Vittles, Purina in cans, moist packs and dry packages;**
- **Salad dressings especially Wish Bone and Seven Seas;**
- **Instant creamers especially Borden's Creamora;**
- **Winter Drinks especially Lipton teas, Hills Brothers coffee, Maxwell House, etc., and Carnation, Nestle's and Hershey's hot cocoa mixes;**
- **Candies especially big sized or adult bars like the M & M Mars King Size bars and the Hershey's Big Block Bar, granola bars like Quaker Oats Whipps and Dipps, boxed chocolates like Whitman's, and premium candies like Ferrero's Mon Cheri and Rocher Ferrero or Borden's Haviland;**
- **Salty snacks, especially Fisher, Eagle Snack and Planter nuts, Planter's canister snacks, Eagle Snacks, Borden's and Frito Lay chips;**
- **Microwavable popcorn, especially Betty Crocker's Pop Secret and Pillsbury's microwavable popcorn;**
- **Peanut butter especially Superman Peanut Butter and Jif;**
- **Jellies especially Welch's and Smuckers;**
- **Packaged rice especially Uncle Ben's;**
- **Pudding and jello mixes;**
- **Pickles especially Vlassic;**
- **Canned vegetables especially Green Giant;**
- **Canned juices & juice drinks like Ocean Spray, Tree Top, Seneca, etc.;**
- **Potato chips especially the hearty and Hawaiian style chips as well as these flavored chips: au gratin chips, jalapeno and cheddar chips, bar-beque chips and spicy flavored chips.**

How drug chains treat c-foods

Drug chains court "convenience minded" shoppers by expanding convenience food departments

Retail drug chains, trying to enhance their appeal to the "convenience minded shopper" are expanding their assortments of convenience style groceries.

Many chains including Walgreen's, Eckerd, Perry's and People's now have limited assortments of select convenience foods in all their stores and a large number are experimenting with expanded convenience food departments featuring canned and packaged groceries as well as refrigerated and frozen foods.

Retailers like Dave Peterson, vp of merchandising for Perry Drug in Michigan, say that convenience foods are a "growth area" for drug store merchants as well as an "opportunity to satisfy the convenience minded shoppers."

Today approximately 10% of all chain drug stores have at least a limited assortment of convenience foods, not counting their sections for candies, chips, nuts, soft drinks and other traditional snacks.

Most also have "convenience" departments for shoppers looking to purchase pet foods, household chemicals and paper goods as well as wine, beer and alcohol wherever liquor licensing is feasible.

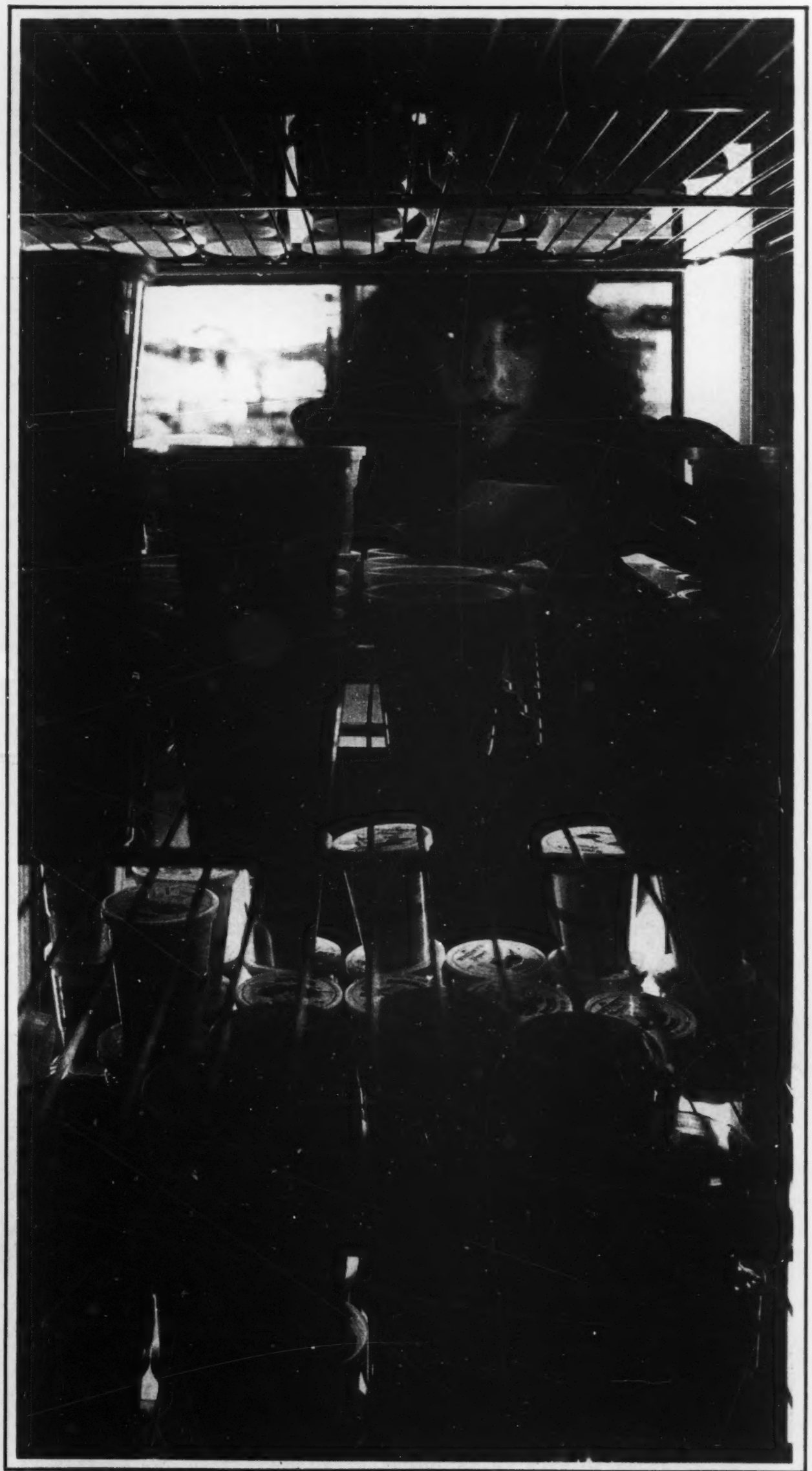
Walgreen's

Walgreen's, which first started experimenting with c-foods back in 1979 with just a handful of stores, now has about 440 stores with full c-food departments, and management says they plan to add about 60 more in 1987.

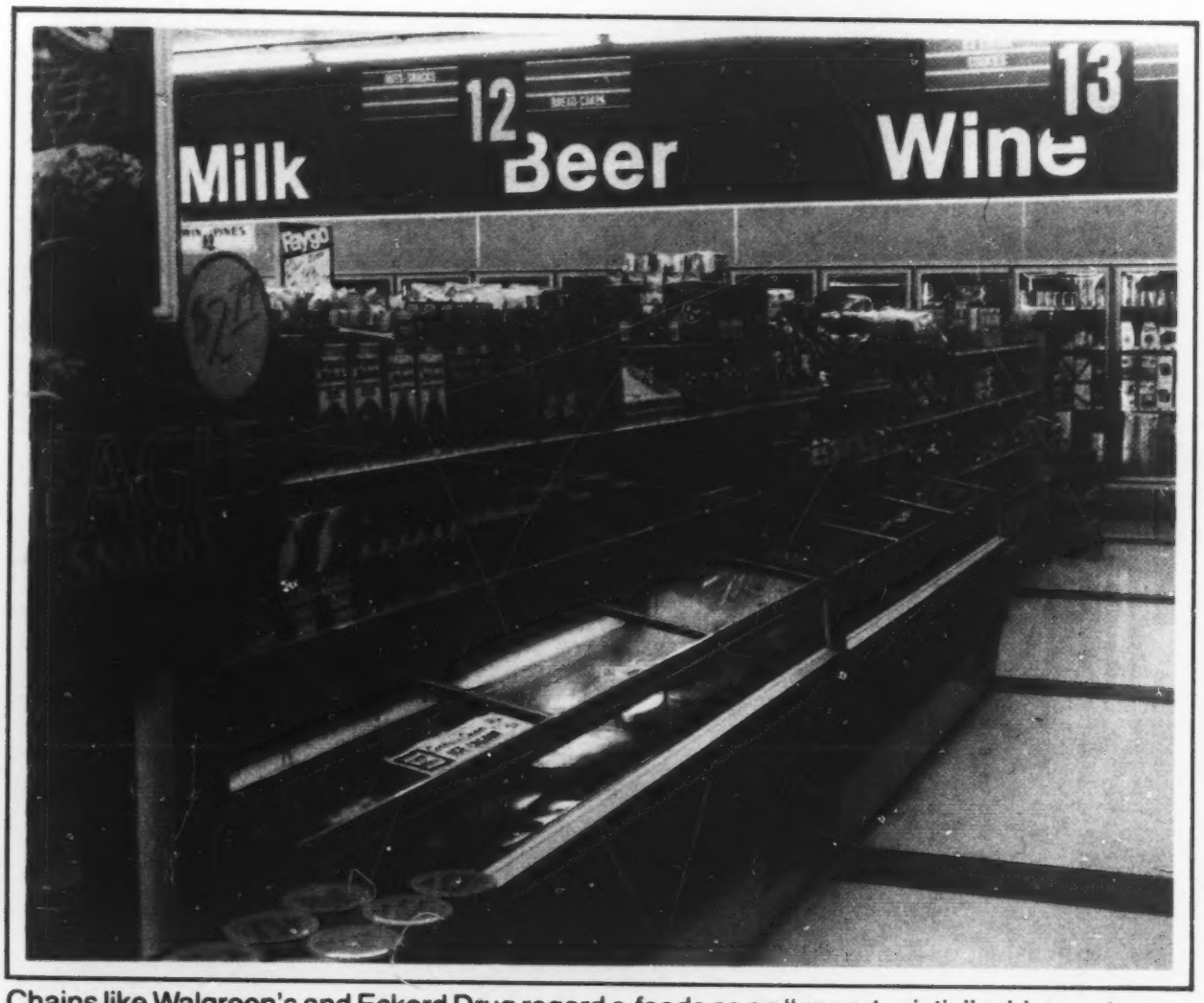
In addition, almost all Walgreen stores carry at least some assortment of convenience foods, particularly milk, ice cream, cold soft drinks, and whenever possible cold beer and wine. All stores also have a full candy and snack section plus sections for pet foods, household chemicals, paper goods and laundry supplies.

Currently about 900 Walgreen's also have liquor departments, and Walgreen's top management says that it will continue to expand its liquor sections "wherever we can."

Walgreen's makes it a priority to keep prices in its c-food depart-



An estimated 25% of all chain drug stores have limited assortments of convenience foods including soft drinks, milk, bread, ice cream and snacks.



Chains like Walgreen's and Eckerd Drug regard c-foods as an "opportunistic" add-on category.

ments competitive with convenience food stores like 7-Eleven, and they always highlight the department with in-store signs, window banners and local advertising.

Typically Walgreen's keeps its c-food department to about 1,000 sq. ft., and typically the mix is somewhat customized to the individual markets. Suburban stores will give more facings to cereals than inner city stores because managers say that cereals sell in suburban stores while generally they don't turn that well in inner city stores.

On the other hand, inner city stores will carry more facings of items like canned soups, coffee, sugars, creamers, yogurt and chilled juices and soft drinks because these types of items appeal to the office workers who are buying breakfast, lunch and snack items in Walgreen's c-food stores.

"The whole secret is knowing what your customers want and giving it to them," says one manager.

Eckerd's

Pete Agostino, the Corporate Merchandise Manager responsible for Eckerd's c-food sections, says that the best-selling items are the high tonnage consumables that people can eat "right in the store if they want to."

Agostino, whose background includes working for Pathmark Food & Drug stores as well as running a small chain of about 60 convenience stores, says the he fashions his mix around the things that people tend to buy and use most frequently, such as milk, soft drinks, beer and snacks.

Right now, Eckerd has two cooler cases for soft drinks in all its stores, and the plan is to expand the selection as quickly as possible so that all stores also have milk, cold beer and eventually cold wine in the coolers.

Right now about 40 Eckerd stores also have mini-combination food sections and 30 of these stores also have microwavable food-to-go sections. All Eckerd stores also have snack and candy sections as well as household chemicals and supplies.

Like the snacks and household supplies, which Eckerd has always carried, the cooler sections are there to serve the convenience of the customer.

"The way customers use drug stores today is changing," says Agostino. "Unless they have a prescription they need filled, they only stop off on their way to and from work to pick up a fill-in item like a shaving cream. If they also need milk or a soft drink, they're likely to go to a food store and get their shaving cream there at the same time.

"We want the cold beverages in our stores so we can make it more convenient for shoppers to use us as a fill-in trip. That way we hope we'll keep the shaving cream sale plus pick up the incremental sale of the milk or soft drink.

The full Eckerd c-food department totals about 80 linear feet, excluding household chemicals, laundry supplies and pet foods which are not related departments.

The 12-ft. dry grocery section and the 3-ft. section for bread and snack cakes are only added in select stores where Agostino says district managers have identified a need or an opportunity for Eckerd to sell c-foods.

"The convenience food sale is an opportunistic sale for us," Agostino says. "It's an opportunity to get incremental dollars per store, but we can only find such opportunities on specific types of sites, so we let the district people tell us when and where they see a need for the convenience dry groceries."

SupeRx

SupeRx has cut back somewhat

Major Chain Drug stores: Who's Who in Convenience Foods

Chain	Total number of stores 12/86	Number of stores with convenience food departments
Walgreen's, Deerfield, Ill.	1300	430
Gray/Drug Fair, Cleveland, Ohio	468	281
Revco, Twinsburg, Oh	2000	200
Perry Drug, Pontiac, Mich.	203	189
SupeRx, Cincinnati, Oh.	500	150
K & B Inc., New Orleans, La.	147	140
Longs, Walnut Creek, Ca.	222	110
Pay 'n Save, Seattle, Wash.	106	106
People's, Alexandria, Va.	870	60
Eckerd, Clearwater, Fla.	1500	40
Genovese, Melville, NY	78	3

Source: Food Merchandising research

The mix in a chain drug convenience food department varies by neighborhood, but the dry packaged grocery assortment almost always includes juices, cereals, ketchups and relishes.

Convenience foods in discount stores

In the discount store field, most chains have stopped trying to carry foods every day to concentrate instead on just using foods as a traffic builder.

"We're not like drug stores," said a Target source. "We can't sell convenience. All we can offer our shopper is price."

However, Wal-Mart, which has a number of stores in small towns and country markets, and Venture Discount stores in the midwest, are both exceptions.

Wal-Mart faces less competition from food stores, and its small town stores can offer their customers the convenience of one-stop shopping.

Consequently Wal-Mart has an everyday food section that features about 100 sku's in some 80 ft. of shelf space. Except for the Thanksgiving/Christmas season, Wal-Mart maintains about three gondolas of food/grocery items every day.

The usual setup is for the candy, nut and chip section to lead into the packaged grocery section. The nonsnack assortment includes pickles, chili, juices, teas, etc.

Paper goods and household cleaners are in other sections of the store as they are in Walgreen's, and pet foods are usually in two locations, along the perimeter or the walls in large 25 and 50 lb. bags displayed on pallets and in a gondola that is usually toward the rear of the store.

Like Walgreen's, Wal-Mart does not usually promote its everyday sections in ads or circulars. Most of the sales come from displays and from in-store impulse sales.

Venture has a similar merchandising program. They carry more of the mainstream categories like cereals, pancake mixes, jellies and beverages.

Venture does advertise its foods, working basically on promotions of products carried in its everyday department.

on the overall size of its c-food sections. The chain currently has convenience foods in about 150 stores, but only 30 to 40 stores have full departments with extensive packaged and refrigerated groceries.

Five years ago, it wasn't uncommon for the refrigerated section in SupeRx's mini-combo stores to have about 24 doors. Now the average section is closer to 12 doors.

SupeRx sources say the c-food concept is practical for a drug store, but that it can be "overdone. The key is to provide convenience, but not to over-develop the food part of the business," said one source.

"You can't forget that you're a drug store first."

Perry

At Perry Drug headquartered in Pontiac, Mich., there are more than two-dozen stores with full convenience food sections plus limited assortments of convenience foods including milk and other cold beverage are now in over 93% of the chain's stores.

The full convenience food departments are in all Perry's 24 hour stores, and in select stores where there is no direct competition from traditional supermarket or convenience food stores.

The typical Perry convenience food department takes up about 30 linear feet and includes milk, juices, breads, cookies and other baked goods snacks.

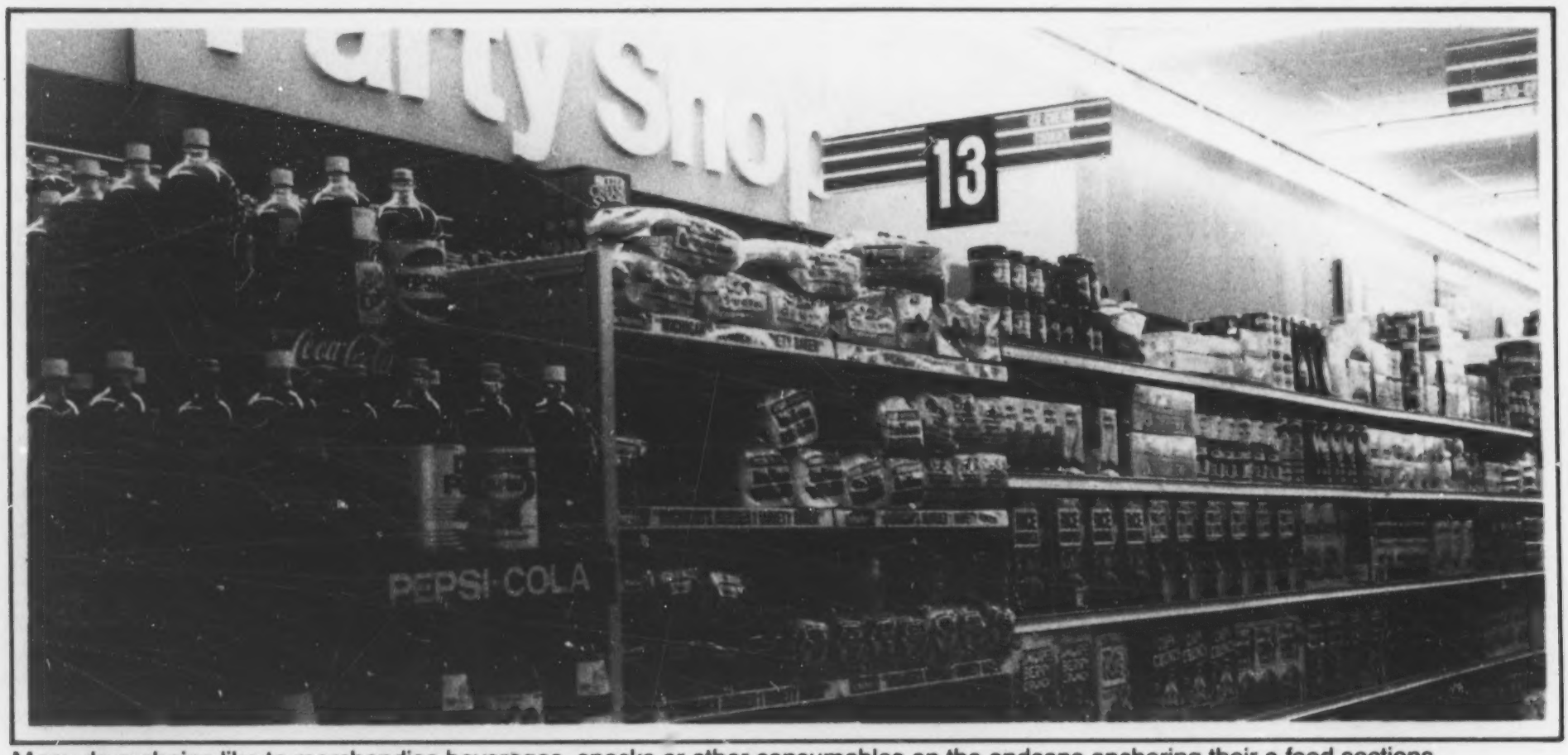
Stores with the full convenience assortment have the 30 linear feet plus another 64 ft. of packaged and canned groceries.

Perry does not advertise its c-food sections and does not use any outside signage to attract new shoppers. "The c-food departments," says Peterson, "are for the convenience of the neighborhood shoppers and they're very visible to anyone walking into the store."

Perry, which is currently doing a direct product profit analysis on all its drug store merchandising categories, says that the c-food department is "standing up very well" as a profit center, even though it is supplied entirely by jobbers and food wholesalers.

"All 24 hour stores will definitely have full c-food departments as we open them," says Peterson, "and so will any other stores where we feel a need exists."

Milk is currently the only convenience food Perry is now promoting.



Many drug chains like to merchandise beverages, snacks or other consumables on the endcaps anchoring their c-food sections.

Drug stores: strategies for convenience foods

Chain drug store retailers have two primary merchandising strategies for convenience foods.

They either see the category as an opportunity to service a large base of regular everyday users as Mickey Kole does at Perry Drug or they see it as a chance to cater to a shopper "who hasn't got a food store nearby and who'll use us until something better comes along."

Walgreen's president Fred Canning's says his strategy is to make Walgreen's a "convenient, midweek fill in store".

"We're very competitive on basics like milk and coffee," says Canning, "and we'll continue to add food centers to new and existing stores wherever appropriate."

Many drug chain executives say, however, that it's virtually impossible for corporate management to know exactly how many c-food departments they will open in any given year.

"There is no such thing as a big charge that wins the battle once and for all," one source says. Instead, he compares the rolling out of convenience food departments to trench warfare. There are a lot of "little battles to be fought and won," he says.

Operations controls expansion

"Even Walgreen's," he says, "which has done the best job of all of us in developing c-foods knows about the little battles. You can identify the right location and go in and be very successful for a year or two.

"Then the local food store will get smart and clean up its act and put in scanners or extra help and suddenly people will go back to shopping there because they've made it more convenient again."

Or, as another source puts it, "the sleepy 7-Eleven you've been competing against will suddenly get tough and they'll lower their prices or start tying into the Southland promotions, and then you have a fight on your hands."

On average, drug store retailers who have c-food departments say that it's crucial to put them in the right stores and to stock them with a product mix that features the items that people buy most often. The corporate concensus also is that this is a business that has to be driven operationally.

"Convenience foods is not a department that can be controlled totally from the central offices," says Perry's Dave Peterson. "The field people know the individual markets best and they can spot a need, and react the fastest if that need disappears or if the market changes."

"Milk is definitely a planned purchase and a good traffic builder," says Peterson. "so we use it as a leader. We feel the rest of our sales, however, are motivated by impulse shopping and the need to make fill-in purchase."

People's

At People's Drug headquartered in Alexandria, Va., there are now about 60 stores with c-food departments compared to about 20 in 1982.

Here too, managers say the success is totally dependent on the mix, the neighborhood demographics and the external competitive market in each location.

Most People's managers say their departments have been very successful, turning about 10 times a year and doing a lot to create "new business for us."

A few, however, say that People's can't always be sure of success. "The situation can be fine for a while, then something will happen to change all that," said one manager. "We still don't know all the answers.

"But if food stores can be drug stores too," he added, "then why can't drug stores also be convenience food stores. Everybody today is taking a piece of someone else's market. Packaged groceries, laundry cleaners, pet foods, cold beers, these are all things we can offer our customers as a convenience.

"As I see it, if I can make their shopping trip more convenient, then my stores are ahead of the competition."

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Anti-Diarrhea 131
Anti-Infectives 135
Ear Care 138
Eye Care 140
Hemorrhoid Preps 144

Top 200 Products Ranked

Number of Rxs	$ Volume	$ Margin*
1 Dyazide caps	Zantac tabs 150mg	Dyazide caps
2 Tylenol w/codeine #3 tabs	Tagamet tabs 300mg	Tylenol/Cod No. 3 30mg tab
3 Darvocet-N 100mg	Dyazide caps	Darvocet-N 100mg
4 Tagamet tabs 300mg	Feldene caps 20mg	Saldane tab 60mg
5 UD Tenormin tabs 50mg	UD Tenormin tabs 50mg	Lanoxin tabs 0.125mg
6 Zantac tabs 150mg	UD Procardia caps 10mg	Valium tabs 5mg
7 Lanoxin tabs 0.125mg	Keflex caps 500mg	Keflex pul 250mg
8 Lanoxin tabs 0.25mg	Naprosyn tabs 375mg	Slow K tabs 600mg
9 Seldane tabs 30mg	Darvocet-N 100mg	Feldene caps 20mg
10 Slow K tabs 600mg	Seldane tabs 60mg	UD Tenormin tabs 50mg
11 Dilantin kaps 100mg	Naprosyn tabs 500mg	UD Xanax tabs 0.5mg
12 Lasix tabs 40mg	Cardizem tabs 60mg	Keflex caps 500mg
13 Valium tabs 5mg	Keflex pul 250mg	Tagamet tabs 300mg
14 UD Procardia caps 10mg	Tagamet tabs 400mg	Vicodin tabs
15 Amoxil susp 250mg/5ml 100ml	Valium tabs 5mg	Lanoxin tabs 0.25mg
16 Premarin tabs 0.625mg cycle pk	Capoten tabs 25mg	Flexeril 10mg tabs
17 Motrin tabs 600mg	Tylenol w/codeine #3 tabs	Lasix tabs 40mg
18 Feldene caps 20mg	Clinoril 200mg	Zantac tabs 150mg
19 UD Xanax tabs 0.5mg	UD Xanax tabs 0.5mg	UD Procardia caps 10mg
20 Keflex pul 250mg	Flexeril 10mg tabs	E.E.S. 400 Filmtabs
21 Lopressor tabs 50mg	Lopressor tabs 50mg	Dilantin kaps 100mg
22 Naprosyn tabs 375mg	Ceclor pulv 250mg	Naprosyn tabs 375mg
23 E.E.S. 400 filmtabs	Cardizem tabs 30mg	Tylenol/Cod No. 4 60mg tabs
24 Theo-Dur tabs 300mg	Dilantin kaps 100mg	Theo-Dur tabs 300mg
25 Amoxil susp 125mg/5ml 100ml	Lopressor tabs 100mg	Amoxil Susp 250mg 100ml
26 Flexeril 10mg tabs	Slow K tabs 600mg	Premarin 0.625mg cycle pak
27 Ortho Novum 7/7/7-28 pk	Motrin tabs 600mg	Xanax tabs 0.25mg
28 Captoten tabs 25mg	Carafate tabs 1gm	Motrin 800mg tab
29 Maxzide tabs	Timoptic 0.5% opht 15ml	Maxzide tabs
30 Motrin tab 800mg	Aldomet tabs 250mg	Lopressor tabs 50mg
31 Vicodin tabs	Theo-Dur tabs 300mg	Halcion tabs 0.25mg
32 Ortho-Novum 1/35 28 Ref	Premarin 0.625mg cycle pk	Capoten tabs 25mg
33 Motrin tabs 400mg	Motrin 800mg tabs	Moduretic tabs 5/50mg
34 Xanax tabs 0.25mg	Transderm-Nitro 5mg dsk 7	Proventil inhaler rfl 17gm
35 Moduretic tabs 5/50mg	Ativan tabs 1mg	Naprosyn tabs 500mg
36 Ventolin inhaler refill	Inderal tabs 40mg	Theo-Dur tabs 200mg
37 Proventil inhaler refill 17gm	Duricef caps 500mg	Ativan tabs 1mg
38 Premarin tabs 1.25mg	Moduretic tabs 5/50mg	Ceclor pulv 250mg
39 Keflex caps 500mg	Maxzide tabs	Amoxil caps 250mg
40 Aldomet tabs 250mg	Naprosyn tabs 250mg	Micro-K caps 8mEq
41 Amoxil caps 250mg	Lasix tabs 40mg	Eryc caps 250mg
42 Monistat-7 Vag w/app 45gm	Xanax tabs 0.25mg	Amoxil susp 125mg 100ml
43 Theo-Dur tabs 200mg	Valium tabs 10mg	Provera tabs 10mg
44 Synthroid tabs 0.1mg	Trental tabs 400mg	Entex-LA
45 Naprosyn tabs 500mg	Tegretol tabs 200mg	Clinoril 200mg
46 Tylenol w/codeine #4 tabs	Ventolin inhaler refill	Fiorinal W/Cod No. 3
47 Insulin NPH U100 10ml CP310	Vasotec 5mg tab	Aldomet tabs 250mg
48 Cardizem tabs 30mg	Tranxene caps 7.5mg	Cardizem tabs 30mg
49 Provera tabs 10mg	Diabinese tabs 250mg	Bactrim-DS tabs
50 Micro-K caps 8mEq	Inderal 20mg tabs	Cardizem tabs 60mg

*Based on AWP cost

Top 200 Products Ranked

Number of Rxs	$ Volume	$ Margin*
51 Ceclor Pulv 250mg	Ortho-Novum 1/35 28 ref	Synthroid tabs 0.1mg
52 Hydrochlorothiazide 50mg tabs	UD Dolobid tabs 500mg	Duricef caps 500mg
53 Eryc caps 250mg	Ortho-Novum 7/7/7-28pdpk	Timoptic 0.5% ophth 15ml
54 Ativan tabs 1mg	Micronase tabs 5mg	Monistat-7 vag w/app 45gm
55 Timoptic 0.5% ophth 15ml	Proventil inhaler refill 17gm	Dalmane caps 30mg
56 Halcion tabs 0.25mg	Corgard tabs 40mg	Motrin tabs 400mg
57 Entex-LA	Premarin tabs 1.25mg	Valium tabs 10mg
58 Inderal 20mg tabs	Theo-Dur tabs 200mg	Halcion tabs 0.5mg
59 Cardizem tabs 60mg	Insulin NPH U100 10ml CP310	Percodan tabs
60 Bactrim-DS tabs	Nolvadex tabs 10mg	Ventolin Inhaler Ref
61 Clinoril tabs 200mg	Capoten tabs 50mg	E-Mycin E.C. tabs 333mg
62 Inderal tabs 40mg	Lanoxin tabs 0.125mg	Tranxene caps 7.5mg
63 Lo/Ovral 21 pk	Anaprox 275mg tabs	UD Dolobid tabs 500mg
64 Tagamet tabs 400mg	Tolectin DS caps 400mg	Trental tabs 400mg
65 E-Mycin E.C. tabs 333mg	Monistat-7 vag w/app 45gm	Hydrochlorothiazide 50mg tabs
66 Lasix tabs 20mg	Amoxil susp 250mg/5ml 100ml	Anaprox 275mg tabs
67 Lopressor tabs 100mg	Xanax tabs 1mg	Reglan tabs 10mg
68 Lo/Ovral-28	Vicodin tabs	Minipress caps 1mg
69 Septra-DS tabs	Reglan tabs 10mg	Lasix tabs 20mg
70 Amoxil caps 500mg	Humulin N 100U 10ml	Carafate tabs 1gm
71 Nitrostat tabs 0.4mg	E.E.S. 400 filmtabs	Tylox caps
72 Anaprox 275mg tabs	Persantine tab 50mg	Restoril caps 30mg
73 Insulin Syr. LoDose U100	Zantac 300mg tabs	Tegretol tabs 200mg
74 Minipress caps 1mg	Motrin tabs 400mg	Vasotec 5mg tabs
75 Inderal tabs 10mg	Lanoxin tabs 0.25mg	Premarin tabs 1.25mg
76 K-Tabs 750mg	Bactrim-DS tabs	Catapres tabs 0.1mg
77 Dalmane caps 30mg	Tenormin tabs 100mg	Lopressor tabs 100mg
78 Tranxene caps 7.5mg	Nalfon tabs 600mg	Desyrel tabs 50mg
79 Fiorinal w/codeine No. 3 tabs	Diabeta tabs 5mg	Talwin NX tabs
80 Halcion tabs 0.5mg	Indocin SR 75mg	Naprosyn tabs 250mg
81 Micronase tabs 5mg	Tylenol w/codeine #4 tabs	Diabeta tabs 5mg
82 Reglan tabs 10mg	Nicorette Gum 2mg	Transderm-Nitro 5mg Dsk 7
83 Diabinese tabs 250mg	Minipress caps 1mg	Micro-K 10 Extencaps 750mg
84 Catapres tabs 0.1mg	Lo/Ovral 21 pk	Furosemide tabs 40mg
85 Vasotec 5mg tab	Persantine tabs 75mg	Amoxil caps 500mg
86 Valium tabs 10mg	Clinoril 150mg	Parafon Forte tabs
87 Carafate tabs 1gm	Transderm-Nitro 10mg 30 dsk	Synalgos-DC caps
88 Corgard tabs 40mg	Halcion tabs 0.25mg	Diabinese tabs 250mg
89 Tavist-D tabs	Provera tabs 10mg	Percocet-5 tabs
90 Ortho-Novum 1/50 28 Ref	Calan tabs 80mg	Motrin tabs 600mg
91 Humulin N 100U 10ml	Ceclor Sus 250mg/5ml 75ml	Inderal 20mg tabs
92 Duricef caps 500mg	Orudis caps 75mg	Lotrisone crm 15gm
93 Trental tabs 400mg	Minipress caps 2mg	Nalfon tabs 600mg
94 Alupent Syr	Fiorinal w/codeine No. 3 tabs	UD Restoril caps 15mg
95 UD Dolobid tabs 500mg	Catapres tabs 0.1mg	Acetaminophen w/codeine 30mg
96 Synthroid tabs 0.15mg	Lo/Ovral-28	K-Tabs 750mg
97 Percodan tabs	Desyrel tabs 50mg	Alupent Syrup
98 Restoril caps 30mg	Inderal LA caps 80mg	Xanax tabs 1mg
99 Ortho-Novum 1/35 21 Ref	Tenoretic tabs 50mg	Tagamet tabs 400mg
100 Tri-Phasil-28	Zovirax caps 200mg	Septra-DS tabs

*Based on AWP cost

Top 200 Products Ranked

Number of Rxs	$ Volume	$ Margin*
101 Tegretol tabs 200mg	Inderal tabs 10mg	Medrol 4mg 21 dosepk
102 Furosemide tabs 40mg	Catapres tabs 0.2mg	Nicorette Gum 2mg
103 Acetaminophen w/codeine 30mg	Aldoril-25 tabs	Macrodantin caps 50mg
104 Transderm-Nitro 5mg Dsk 7	Sandimmune 100mg/ml 50ml	Tranxene caps 3.75mg
105 Nicorette Gum 2mg	Aldomet tabs 500mg	Augmentin 250mg tabs
106 Micro-K 10 Extencaps 750mg	Minocin caps 100mg	Klotrix tabs 10mEq
107 Lotrimin Cr 1% 90gm	Insulin Syr, LoDose 28G U100	Humulin N 100U 10ml
108 Naprosyn tabs 250mg	Septra-DS tabs	Tavist-D tabs
109 Klotrix tabs 10mEq	Tavist-D tabs	Synthroid tabs 0.15mg
110 Ledercillin VK tabs 250mg	Vasotec 10mg tab	Corgard tabs 40mg
111 Achromycin V caps 250mg	Halcion tabs 0.5mg	Nitrostat tabs 0.4mg
112 Desyrel tabs 50mg	Eryc caps 250mg	Fiorinal tabs
113 Diabeta tabs 5mg	Micro-K caps 8mEq	Lomotil tabs 2.5mg
114 Insulin Lente U100 CP410	Nitro-Dur II 5mg/10cm	Inderal tabs 40mg
115 Inderal LA caps 80mg	Entex-LA	Inderal tabs 10mg
116 Peresantine tab 50mg	Lopid caps 300mg	Coumadin tabs 5mg
117 Coumadin tabs 5mg	Insulin Lente U100 CP410	Tussi-Organidin Liquid
118 Pediazole susp 150ml	Tranxene caps 3.75mg	Rufen tabs 600mg
119 Lotrisone crm 15gm	Tagamet 800mg	Insulin NPH U100 10ml CP310
120 Nasalcrom spray 13ml	Amoxil caps 250mg	Trinalin tabs
121 Tranxene caps 3.75mg	Amoxil caps 500mg	Rufen tabs 400mg
122 Nalfon tabs 600mg	Percodan tabs	Orudis caps 75mg
123 Lomotil tabs 2.5mg	Augmentin 250mg tabs	Naldecon Ped Syr
124 Tylox caps	Isoptin tabs 80mg	Inderal LA caps 80mg
125 Synalgos-DC caps	Dalmane caps 30mg	Micronase tabs 5mg
126 Ortho-Novum 1/50 21 Ref	Parlodel tabs 2.5mg	Trimeth/Sulfa DS tabs
127 UD Restoril caps 15mg	Ortho-Novum 1/50 28 Ref	Alupent M.D. Inh 15ml
128 Trinalin tabs	Parafon Forte tabs	Soma 350mg tabs
129 Medrol 4mg 21 dosepk	E-Mycin E.C. tabs 333mg	Minipress caps 2mg
130 Amoxicillin caps 250mg	Ortho-Novum 1/35 21 Ref	Donnatal tabs
131 Ortho-Novum 7/7/7-21 Dpk	Synthroid tabs 0.1mg	Lotrimin Cr 1% 90gm
132 Macrodantin caps 50mg	Quinaglute Duratabs 324mg	Tenoretic tabs 50mg
133 Beconase Inhaler 16.8gm	Accutane caps 40mg	Empirin w/codeine No. 3 tabs
134 Donnatal tabs	Sinemet 25/100 tabs	Librax caps
135 Tolectin DS caps 400mg	Tri-Phasil-28	Ledercillin VK tabs 250mg
136 Ovral-21 3-Pk	Talwin NX tabs	Zovirax caps 200mg
137 Amoxil chewable tabs 250mg	Indocin caps 25mg	Ionamin-30 caps
138 Minipress caps 2mg	Librax caps	Nasalcrom Spray 13ml
139 Rufen tabs 600mg	Restoril caps 30mg	Glucotrol tabs 5mg
140 Hydrodiuril tabs 50mg	Trinalin tabs	Persantine tabs 50mg
141 Aldoril-25 tabs	K-Tabs 750mg	Tussi-Organidin DM
142 Fiorinal tabs	Danocrine caps 200mg	Indocin SR 75mg
143 Alupent M.D. Inhaler 15ml	Triavil 2-25 tabs	Phenergan W/Cod Syrup
144 Ceclor Susp 250mg/5ml 75ml	Corgard tabs 80mg	Tolectin DS caps 400mg
145 Xanax tabs 1mg	Zyloprim tabs 300mg	Calan tabs 80mg
146 Tussi-Organidin Liquid	Lotrisone Crm 15gm	Fastin Pack caps 30mg
147 Calan tabs 80mg	Macrodantin caps 50mg	Deconamine-Sr caps
148 Monistat Dual-Pak	Quinidex extentabs	Indocin caps 25mg
149 Ledercillin VK tabs 500mg	Norgesic Forte tabs	Clinoril 150mg
150 Parafon Forte tabs	Pediazole susp 150mg	Omnipen caps 500mg

*Based on AWP cost

Top 200 Products Ranked

Number of Rxs	$ Volume	$ Margin*
151 Indocin SR 75mg	Ativan 2mg	Valium tabs 2mg
152 Rufen tabs 400mg	Augmentin 500mg tabs	Ornade span modified
153 Zyloprim tabs 300mg	Tylox caps	Aldoril-25 tabs
154 Naldecon ped syr	Amoxil susp 125mg 100ml	Darvon Cpd-65 pul
155 Tenormin tabs 100mg	Soma 350mg tabs	Ceclor sus 125mg/5ml 75ml
156 Synthroid tabs 0.2mg	Ornade span modified	Tussionex susp
157 Tenoretic tabs 50mg	Lorelco tabs 250mg	Isoptin tabs 80mg
158 E-Mycin tabs 250mg	K-Lyte Org 25mEq	Amoxil chew tabs 250mg
159 Ceclor Susp 125mg/5ml 75ml	Meclomen caps 100mg	Dalmane caps 15mg
160 Augmentin 250mg tabs	Capoten tabs 12.5mg	Norgesic Forte tabs
161 Talwin NX tabs	Ceclor pulv 500mg	Achromycin V caps 250mg
162 Ornade span modified	Sinemet 25/250 tabs	Nasalide soln 0.025% 25ml
163 Erythrocin tabs 250mg	Percocet-5 tabs	Hydrodiuril tabs 50mg
164 Percocet-5 tabs	Lotrimin Cr 1% 90gm	K-Lyte org 25mEq
165 Librax caps	Inderal tabs 80mg	Naldecon tabs
166 Catapres tabs 0.2mg	Coumadin tabs 5mg	Omnipen caps 250mg
167 Stuartnatal 1 + 1 tabs	Ortho-Novum 1/50 21 Ref 48s	Vasotec 10mg tab
168 Thyroid tabs 1gr	Minipress caps 5mg	Antivert tabs 25mg
169 Persantine tabs 75mg	Alupent M.D. Inh 15ml	Imodium caps 2mg
170 Tussi-Organidin DM	Ovral-21 3pk	Ditropan tabs 5mg
171 Valium tabs 2mg	Glucotrol tabs 5mg	Stuartnatal 1 + 1 tabs
172 Phenergan w/cod syrup	Nasalide Soln 0.25% 25ml	Tenuate Dospan 75mg
173 Premarin tabs 0.3mg	Nasalcrom Spray 13ml	Premarin vag crm/appl 45gm
174 Indocin caps 25mg	Klotrix tabs 10mEq	Synthroid tabs 0.2mg
175 Trimeth/Sulfa DS tabs	Ortho-Novum 7/7/7-21 Dpk	Ativan tabs 0.5mg
176 Glucotrol tabs 5mg	Ceclor Susp 125mg/5ml 75ml	Premarin tabs 0.3mg
177 Deconamine-SR caps	Procan SR tabs 500mg	Erythrocin tabs 250mg
178 Nasalide Soln. 0.25% 25ml	Micro-K extencaps 750mg	Pediazole susp 150mg
179 Empirin w/codeine # 3 tabs	Minocin tabs 100mg	Transderm-Nitro 10mg 30Dsk
180 Amcill caps 500mg	Macrodantin caps 100mg	Phenergan VC w/cod Syrup
181 Clinoril 150mg	Medrol 4mg 21 dosepk	Catapres tabs 0.2mg
182 Omnipen caps 250mg	Persantine tabs 25mg	Propoxy/Nap/APAP 100/650mg
183 Vasotec tab 10mg	UD Restoril caps 15mg	Materna tabs
184 Zovirax caps 200mg	Questran Pwd packets	E-Mycin tabs 250mg
185 E.E.S. Liq 200	Zovirax oint 5%	Adipex-P tabs 37.5mg
186 Norinyl 1-35 21 Wallette	Desyrel tabs 100mg	Robaxin-750mg tabs
187 K-Lyte org 25mEq	Timoptic 0.25% opht 15ml	Anusol-HC supp
188 Premarin vag cream/appl 45gm	Lasix tabs 20mg	Elavil tabs 25mg
189 Norinyl 1-50 21 Wallette	Rufen tabs 600mg	Zyloprim tabs 300mg
190 Ovral-28 pilpak	Glucotrol tabs 10mg	Ativan 2mg tabs
191 Materna tabs	Lomotil tabs 2.5mg	Capoten tabs 12.5mg
192 Aldactazide tabs 25/25	Naldecon tabs	Parlodel tabs 2.5mg
193 Midrin caps	Tonocard tabs 400m	Macrodantin caps 100mg
194 Omnipen caps 500mg	Synalgos-DC caps	Quinamm Tabs
195 Phenergan VC w/codeine syrup	Synthroid tabs 0.15mg	Thyroid tabs 1gr
196 Cleocin T 1% soln.	Monistat Dual-Pak	Dilantin 125 Susp
197 Cortisporin otic susp 10ml	Fiorinal tabs	Triavil 2-25 tabs
198 Persantine tabs 25mg	Sinemet 10/100 tabs	Synthroid tabs 0.05mg
199 Antivert tabs 25mg	Visken tabs 5mg	Augmentin 500mg tabs
200 Naldecon tabs	Serax caps 15mg	Ceclor sus 250mg/5ml 75ml

*Based on AWP cost

Top 200 Ranked by Manufacturer

	Number Of Rxs	$ Volume	$ Margin
ABBOTT			
Erythrocin tabs 250mg	163	—	177
E.E.S 400 filmtabs	23	71	20
E.E.S. Liq. 200	185	—	—
K tabs 750mg	76	141	96
Tranxene caps 3.75mg	121	118	104
Tranxene caps 7.5mg	78	48	62
AYERST			
Inderal tabs 20mg	58	50	91
Inderal LA caps 80mg	115	98	124
Inderal tabs 10mg	75	101	115
Inderal tabs 40mg	62	36	114
Inderal tabs 80mg	—	165	—
Premarin tabs 0.625mg cycle pk	16	32	26
Premarin tabs 0.3mg	173	—	176
Premarin tabs 1.25mg	38	57	75
Premarin vag cream/appl 45gm	188	—	173
BECTON DICKINSON			
Insulin Syr. LoDose U100	73	107	—
BEECHAM			
Amoxil caps 250mg	41	120	39
Amoxil caps 500mg	70	121	85
Amoxil chewable tabs 250mg	137	—	158
Amoxil susp 125mg/5ml 100ml	25	154	42
Amoxil susp 250mg/5ml 100ml	15	66	25
Augmentin 250mg tabs	160	123	105
Augmentin 500mg tabs	—	152	199
BERLEX			
Deconamine-SR caps	177	—	147
Quinaglute Duratabs 324mg	—	132	—
BOEHRINGER INGELHEIM			
Alupent M.D. Inhaler 15ml	143	169	127
Alupent syr	94	—	97
Catapres tabs 0.1mg	84	95	76
Catapres tabs 0.2mg	166	102	181
Persantine tab 50mg	116	72	140
Persantine tabs 25mg	198	182	—
Persantine tabs 75mg	169	85	—
BOOTS			
Rufen tabs 400mg	152	—	121
Rufen tabs 600mg	139	189	118
BRISTOL			
Naldecon ped syr	154	—	123
Naldecon tabs	200	192	165
BURROUGHS WELLCOME			
Cortisporin otic susp 10ml	197	—	—
Empirin/cod No.3 30mg tab	179	—	133
Lanoxin tablets 0.125mg	7	62	5
Lanoxin tablets 0.25mg	8	75	15
Septra-DS tabs	69	108	100
Zovirax caps 200mg	184	100	136
Zyloprim tabs 300mg	153	145	189
Zovirax oint 5%	—	185	—
CIBA			
Slow K tablets 600mg	10	26	8
Transderm-Nitro 5mg Dsk 7	104	34	82
Transderm-Nitro 10mg 30 dsk	—	87	179
DISTA PRODUCTS			
Ceclor Pulv 250mg	51	22	38
Ceclor Pulv 500mg	—	161	—
Ceclor Susp 125mg/5ml 75ml	159	176	155
Ceclor Susp 250mg/5ml 75ml	144	91	200
Keflex pul 500mg	39	7	12
Keflex pul 250mg	20	13	7
Nalfon tabs 600mg	122	78	93
DUPONT			
Coumadin tabs 5mg	117	166	116
Percocet-5 tabs	164	163	89
Percodan tabs	97	122	59
FISONS			
Nasalcrom Spray 13ml	120	173	138
FLINT			
Synthroid tabs 0.15mg	96	195	109
Synthroid tabs 0.2mg	156	—	174
Synthroid tabs 0.1mg	44	131	51
Synthroid tabs 0.05mg	—	—	198
GEIGY			
Lopressor tabs 50mg	21	21	30
Lopressor tabs 100mg	67	25	77
Tegretol tabs 200mg	101	45	73
GENERIC			
Acetaminophen w/cod 30mg	103	—	95
Amoxicillin caps 250mg	130	—	—
Furosemide tabs 40mg	102	—	84
Hydrochlorothiazide tabs 50mg	52	—	65
Thryoid tabs 1gr	168	—	195
Trimeth/Sulfa DS tabs	175	—	126
Propoxy/Nap/APAP 100/650mg	—	—	182
GLAXO INC.			
Beconase Inhaler 16.8gm	133	—	—
Ventolin inhaler refill	36	46	60
Zantac tabs 150mg	6	1	18
Zantac tabs 300mg	—	73	—
HOECHST			
Diabeta tabs 5mg	113	79	81
Lasix tabs 40mg	12	41	17
Lasix tabs 20mg	66	188	69
Trental tabs 400mg	93	44	64
JANSSEN			
Imodium caps 2mg	—	—	169
KEY			
Theo-Dur tabs 300mg	24	31	24

Top 200 Ranked by Manufacturer

	Number Of Rxs	$ Volume	$ Margin
Theo-Dur tabs 200mg	43	58	36
Nitro-Dur II 5mg/10cm	—	114	—
KNOLL			
Vicodin tabs	31	68	14
Isoptin tabs 80mg	—	124	157
LAKESIDE			
Tenuate Dospan 75mg	—	—	172
LEDERLE			
Achromycin V caps 250mg	111	—	161
Ledercillin VK tabs 250mg	110	—	135
Ledercillin VK tabs 500mg	149	—	—
Materna tabs	191	—	183
Maxzide tabs	29	39	29
Minocin caps 100mg	—	106	—
Minocin tabs 100mg	—	179	—
LEMMON			
Adipex-P tabs 37.5mg	—	—	185
LILLY			
Darvocet-N 100mg	3	9	3
Humulin N 100U 10ml	91	70	107
Insulin Lente U100 CP410	114	117	—
Insulin NPH U100 10ml CP310	47	59	119
Darvon Cpd-65 pul	—	—	154
MARION			
Carafate tabs 1gm	87	—	70
Cardizem tabs 30mg	48	23	48
Cardizem tabs 60mg	59	12	50
Ditropan tabs 5mg	→	—	170
McNEIL			
Parafon Forte tabs	150	128	86
Tolectin DS caps 400mg	135	64	144
Tylenol w/cod #3 tabs	2	17	2
Tylenol w/cod #4 60mg tabs	46	81	23
Tylox caps	124	—	71
MEAD JOHNSON			
Desyrel tabs 50mg	112	97	78
Duricef caps 500mg	92	37	52
Klotrix tabs 10mEq	109	174	106
K-Lyte org 25mEq	187	158	164
Desyrel tabs 100mg	—	186	—
Questran Pwd packets	—	184	—
MERCK SHARPE & DOHME			
Aldomet tabs 250mg	40	30	47
Aldomet tabs 500mg	—	105	—
Aldoril-25 tabs	141	103	153
Clinoril tabs 150mg	181	86	149
Clinoril tabs 200mg	61	18	45
Elavil tabs 25mg	—	—	188
Flexeril 10mg tablets	26	20	16
Hydrodiuril tabs 50mg	140	—	163
Indocin caps 25mg	174	137	148
Indocin SR 75mg	151	80	142
Moduretic tabs 5/50mg	35	38	33
Sinemet 10/100 tabs	—	198	—
Sinemet 25/100 tabs	—	134	—
Sinemet 25/250 tabs	—	162	—
Timoptic 0.25% opht 15ml	—	187	—
Timoptic 0.5% ophth 15ml	55	29	53
Tonocard tabs 400mg	—	193	—
Triavil 2-25 tabs	—	143	197
UD Dolobid tabs 500mg	95	52	63
Vasotec 5mg tab	85	47	74
Vasotec 10mg tab	183	110	167
MERRELL DOW			
Nicorette Gum 2mg	105	82	102
Seldane tab 60mg	9	10	4
Lorelco tabs 250mg	—	157	—
Quinamm tabs	—	194	—
NORWICH EATON			
Entex-LA	57	115	44
Macrodantin caps 50mg	132	147	103
Macrodantin caps 100mg	—	180	193
ORTHO PHARMACEUTICALS			
Monistat Dual-Pak	148	196	—
Monistat-7 Vag w/app 45gm	42	65	54
Ortho Novum 1/35 21 Ref	99	130	—
Ortho Novum 1/35 28 Ref	32	51	—
Ortho Novum 1/50 21 Ref	126	—	—
Ortho Novum 1/50 28 Ref	90	127	—
Ortho Novum 1/50 21 Ref 48s	—	167	—
Ortho Novum 7/7/7-21 Dpk	131	175	—
Ortho Novum 7/7/7-28 pk	27	53	—
PARKE DAVIS			
Amcill caps 500mg	180	—	—
Eryc caps 250mg	53	112	41
Nitrostat tabs 0.4mg	71	—	111
Dilantin kapseals 100mg	11	24	21
Lopid caps 300mg	—	116	—
Meclomen caps 100mg	—	159	—
Procan SR tabs 500mg	—	177	—
Anusol-HC supp	—	—	187
Dilantin 125 Susp	—	—	196
PENNWALT			
Ionamin-30 caps	—	—	137
Tussionex susp	—	—	156
PFIZER			
Diabinese tabs 250mg	83	49	88
Feldene capsules 20mg	18	4	9
Minipress caps 1mg	74	83	68
Minipress caps 2mg	138	93	129
Minipress caps 5mg	—	168	—
UD Procardia capsules 10mg	14	6	19
REED CARNRICK			
Midrin caps	193	—	—
RIKER			
Norgesic Forte tabs	—	149	160
A.H. ROBINS			
Donnatal tabs	134	—	130
Micro-K 10 Extencaps 750mg	106	178	83

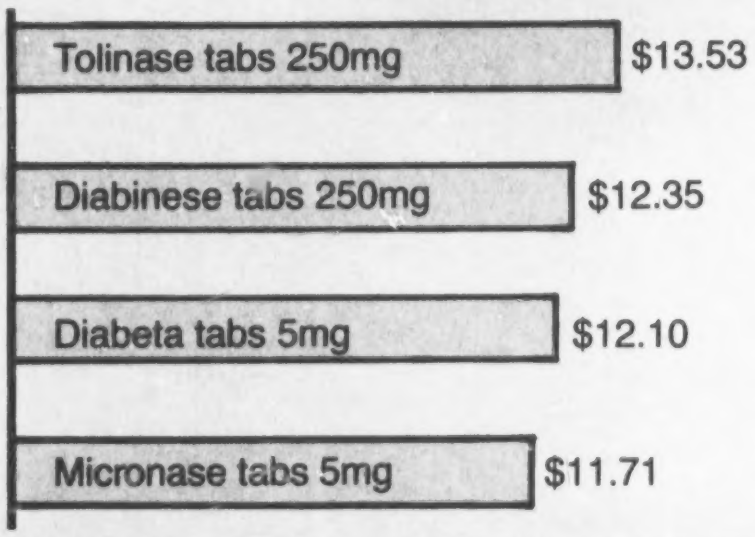
Top 200 Ranked by Manufacturer

	Number Of Rxs	$ Volume	$ Margin
Micro-K caps 8mEq	50	113	40
Reglan tabs 10mg	82	69	67
Quinidex extentabs	—	148	—
Robaxin-750mg tabs	—	—	186
ROCHE			
Bactrim-DS tabs	60	76	49
Dalmane caps 30mg	77	125	55
Dalmane caps 15mg	—	—	159
Librax caps	165	138	134
Valium tabs 5mg	13	15	6
Valium tabs 10mg	86	43	57
Valium tabs 2mg	171	—	151
Accutane caps 40mg	—	133	—
ROERIG			
Antivert tabs 25mg	199	—	168
Glucotrol tabs 5mg	76	171	139
Glucotrol tabs 10mg	—	190	—
ROSS			
Pediazole susp 150ml	118	150	178
SANDOZ			
Fiorinal tabs	142	197	112
Fiorinal w/Cod No. 3	79	94	46
Restoril caps 30mg	98	139	72
Tavist-D tabs	89	109	108
UD Restoril caps 15mg	127	183	94
Carafate tabs 1gm	—	28	—
Parlodel tabs 2.5mg	—	126	192
Sandimmune 100mg/ml 50ml	—	104	—
Visken tabs 5mg	—	199	—
Synalgos-DC caps	125	194	87
SCHERING			
Lotrimin Cr 1% 90gm	107	164	131
Lotrisone Crm 15gm	119	146	92
Proventil inhaler Rfl 17gm	37	55	34
Trinalin tabs	128	140	120
SEARLE			
Aldactazide tabs 25/25	192	—	—
Calan tabs 80mg	147	90	145
Lomotil tabs 2.5mg	123	191	113
SKF			
Dyazide capsules	1	3	1
Ornade Span modified	162	156	152
Tagamet tabs 300mg	4	2	13
Tagamet tabs 400mg	64	14	99
Tagamet tabs 800mg	—	119	—
SQUIBB			
Capoten tabs 12.5mg	—	160	191
Capoten tabs 25mg	28	16	32
Capoten tabs 50mg	—	61	—
Corgard tabs 40mg	88	56	110
Corgard tabs 80mg	—	144	—
STUART			
Stuartnatal 1 + 1 tabs	167	—	171
Tenoretic tabs 50mg	157	99	132
Tenormin tabs 100mg	155	77	—
UD Tenormin tablets 50mg	5	5	10
Nolvadex tabs 10mg	—	60	—
SYNTEX			
Anaprox tabs 275mg	72	63	66
Naprosyn tabs 375mg	22	8	22
Naprosyn tabs 250mg	108	40	80
Naprosyn tabs 500mg	45	11	35
Nasalide Soln. 0.25% 25ml	178	172	162
Norinyl 1/35 21 Wallette	186	—	—
Norinyl 1/50 21 Wallette	189	—	—
UPJOHN			
Cleocin T 1% soln.	196	—	—
E-Mycin E.C. tabs 333mg	65	129	61
E-Mycin tabs 250mg	158	—	184
Halcion tabs 0.25mg	56	88	31
Halcion tabs 0.5mg	80	111	58
Medrol 4mg 21 dosepk	129	181	101
Micronase tabs 5mg	81	54	125
Motrin tab 800mg	30	33	28
Motrin tabs 600mg	17	27	90
Motrin tabs 400mg	33	74	56
Provera tabs 10mg	49	89	43
UD Xanax tablets 0.5mg	19	19	11
Xanax tabs 0.25mg	34	42	27
Xanax tabs 1mg	145	67	98
WALLACE			
Tussi-Organidin Liquid	146	—	117
Tussi-Organidin DM	170	—	141
Soma 350mg tabs	—	155	128
WINTHROP-BREON			
Danocrine caps 200mg	—	142	—
Talwin NX tabs	161	136	79
WYETH			
Ativan tabs 0.5mg	—	—	175
Ativan tabs 1mg	54	35	37
Ativan tabs 2mg	—	151	190
Lo/Ovral 21 pk	63	84	—
Lo/Ovral-28	68	96	—
Omnipen caps 250mg	182	—	166
Omnipen caps 500mg	194	—	150
Orudis caps 75mg	—	92	122
Ovral-21 3-Pk	136	170	—
Ovral-28 pilpak	190	—	—
Phenergan VC w/cod syrup	195	—	180
Phenergan w/cod syrup	172	—	143
Serax caps 15mg	—	200	—
Tri-Phasil 28	100	135	—

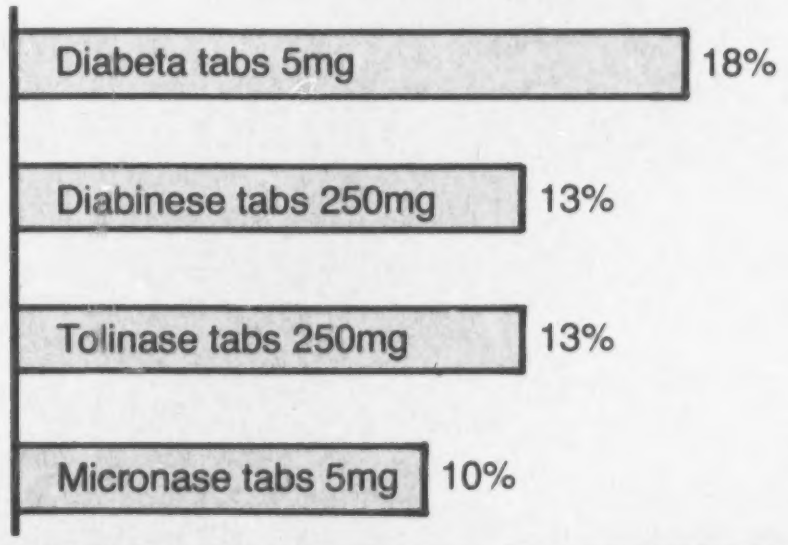
Diabinese Tabs 250mg Pfizer—Avg. Rx #29 $12.35 Avg. % Gross Margin 13% Avg. % Refill 70%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	50.00	50.00	75.00	42.86	33.33	72.45	72.73	76.24	68.94	52.94	70.02
% of Rx Dispensed	0.98	0.59	0.39	0.69	0.29	28.99	4.33	9.96	52.07	1.67	**100.00**
Average GM %	51.07	44.49	38.26	37.72	24.70	24.28	23.04	16.95	10.20	5.88	13.46
Profitability Ratio*	5	6	8	7	10	1	4	3	2	9	—

Average Retail Price Per Script



Average % Gross Margin Per Script



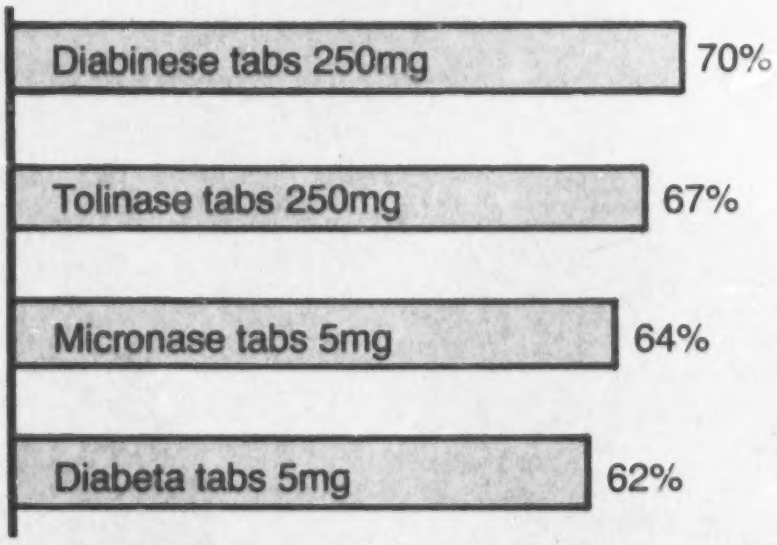
Diabeta Tabs 5mg Hoechst—Avg. Rx #32 $12.10 Avg. % Gross Margin 18% Avg. % Refill 62%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	42.86	50.00	100.00	00.00	20.00	62.50	63.64	75.86	62.16	56.04	62.05
% of Rx Dispensed	0.86	1.73	0.24	0.74	0.61	21.75	2.71	10.75	49.32	11.24	**100.00**
Average GM %	58.04	49.05	50.15	31.70	33.28	32.47	30.53	23.66	15.64	10.24	17.69
Profitability Ratio*	7	5	10	8	9	2	6	3	1	4	—

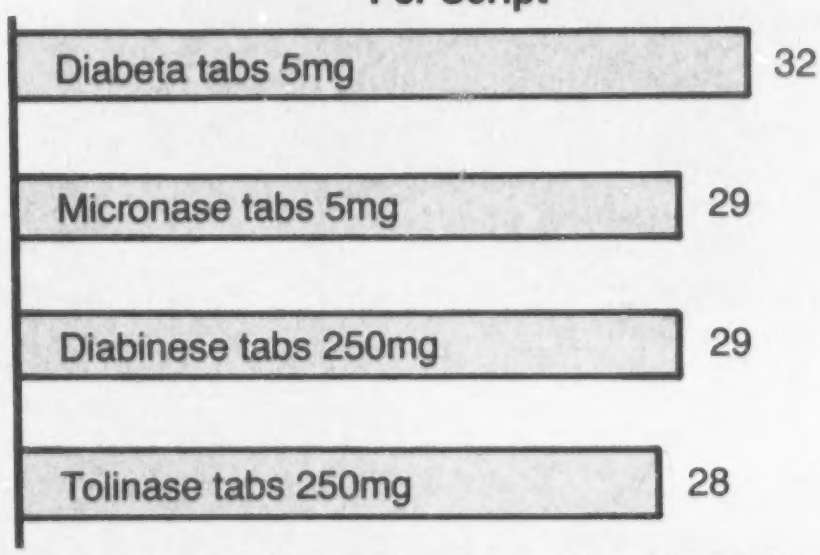
Tolinase Tabs 250mg Upjohn—Avg. Rx #28 $13.53 Avg. % Gross Margin 13% Avg. % Refill 67%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	50.00	100.00	00.00	75.00	00.00	71.64	75.00	64.00	67.57	41.67	67.30
% of Rx Dispensed	0.76	0.38	00.00	1.52	00.00	25.47	1.52	9.50	56.27	4.56	**100.00**
Average GM %	45.85	27.43	00.00	38.17	00.00	24.08	22.74	16.83	11.48	7.71	13.48
Profitability Ratio*	5	8	9	4	10	2	6	3	1	7	—

Average Refill %



Average Quantity Dispensed Per Script



Micronase Tabs 5mg Upjohn—Avg. Rx #29 $11.71 Avg. % Gross Margin 10% Avg. % Refill 64%

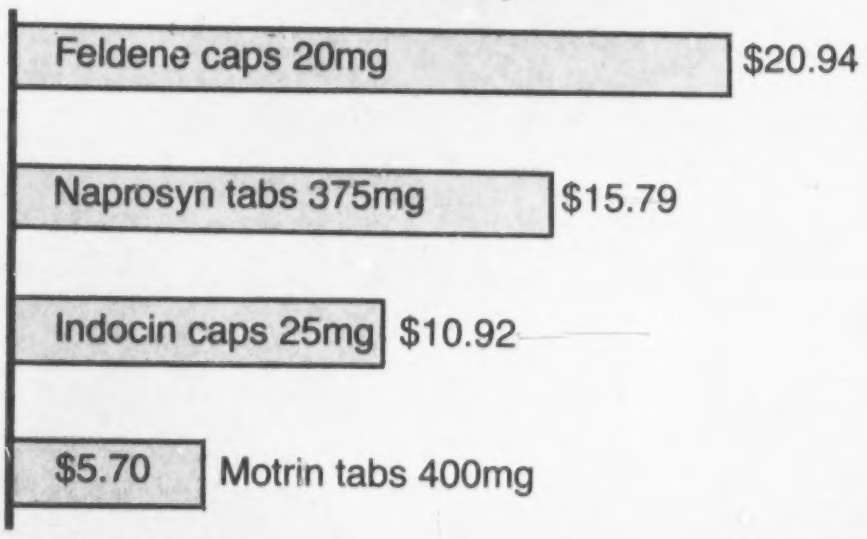
Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	55.56	50.00	00.00	40.00	100.00	59.92	61.11	72.12	64.47	66.22	63.90
% of Rx Dispensed	1.00	0.89	00.00	0.56	0.22	27.69	2.01	11.65	47.64	8.29	**100.00**
Average GM %	27.71	38.00	00.00	36.59	22.50	20.71	26.17	20.37	8.71	– 7.38	9.70
Profitability Ratio*	6	5	9	7	8	1	4	3	2	10	—

*Drug Store News ranked each quantity on a scale from 1-10; 10 being the most profitable quantity to dispense in terms of product movement and average gross margin.

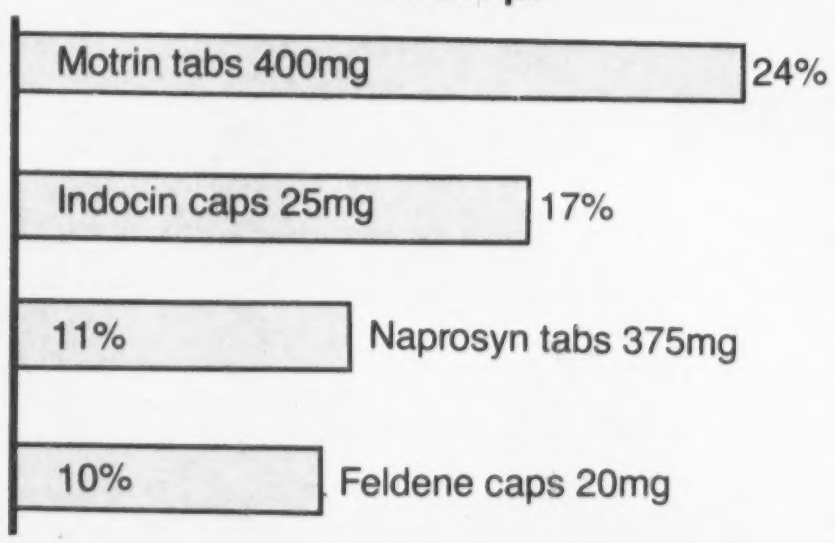
Feldene Caps 20mg Pfizer—Avg. Rx #22 $20.94 Avg. % Gross Margin 10% Avg. % Refill 53%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	37 50	34.01	25.00	46.91	26.92	56.22	60.00	60.40	62.73	66.67	53.22
% of Rx Dispensed	5.34	8.22	0.16	6.76	1.08	62.11	5.22	4.21	6.72	0.12	**100.00**
Average GM %	25.76	17.76	24.50	11.07	11.63	9.23	9.67	8.61	6.81	1.75	9.61
Profitability Ratio*	3	2	9	4	8	1	5	7	6	10	—

Average Retail Price Per Script



Average % Gross Margin Per Script



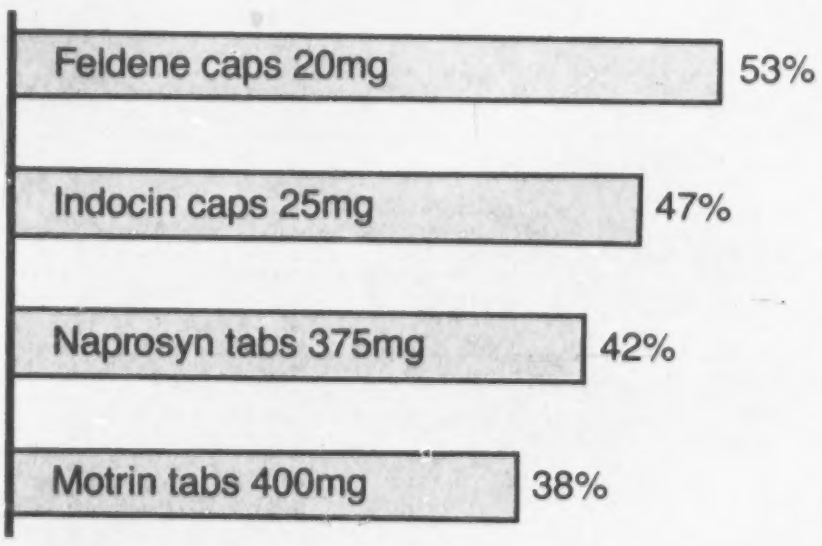
Indocin Caps 25mg MSD—Avg. Rx #31 $10.92 Avg. % Gross Margin 17% Avg. % Refill 47%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	57.14	50.00	50.00	10.00	26.09	37.13	33.33	50.00	58.90	58.82	46.93
% of Rx Dispensed	1.19	2.73	0.34	5.11	3.92	28.49	0.51	17.40	37.37	2.90	**100.00**
Average GM %	48.74	44.63	43.37	38.17	30.71	29.01	33.83	21.47	11.63	7.82	17.43
Profitability Ratio*	7	5	10	4	6	1	9	3	2	8	—

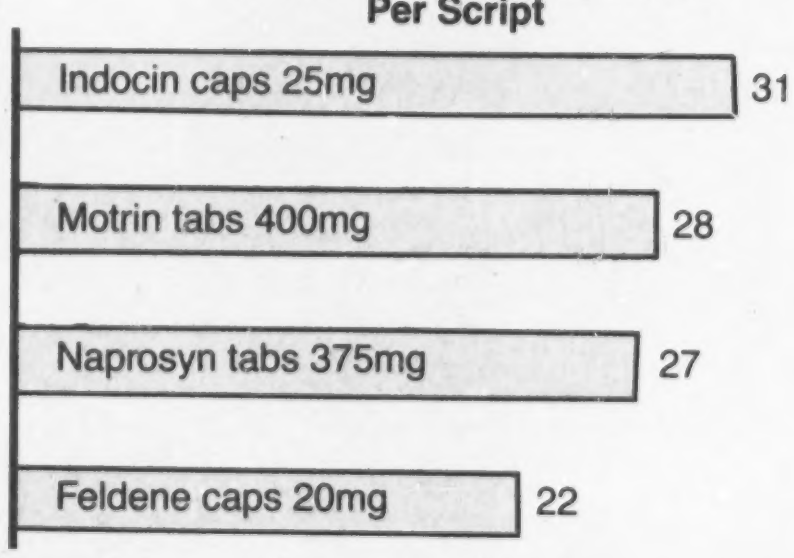
Motrin Tabs 400mg Upjohn—Avg. Rx #28 $5.70 Avg. % Gross Margin 24% Avg. % Refill 38%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	23.26	26.32	33.33	13.85	36.67	28.95	42.11	31.53	52.73	58.24	38.42
% of Rx Dispensed	2.44	2.15	0.17	7.37	1.70	21.56	1.07	23.04	35.30	5.16	**100.00**
Average GM %	63.04	57.45	51.38	48.13	37.91	34.70	25.44	28.94	18.42	8.17	23.85
Profitability Ratio*	5	6	10	4	7	1	9	2	3	8	—

Average Refill %



Average Quantity Dispensed Per Script



Naprosyn Tabs 375mg Syntex—Avg. Rx #27 $15.79 Avg. % Gross Margin 11% Avg. % Refill 42%

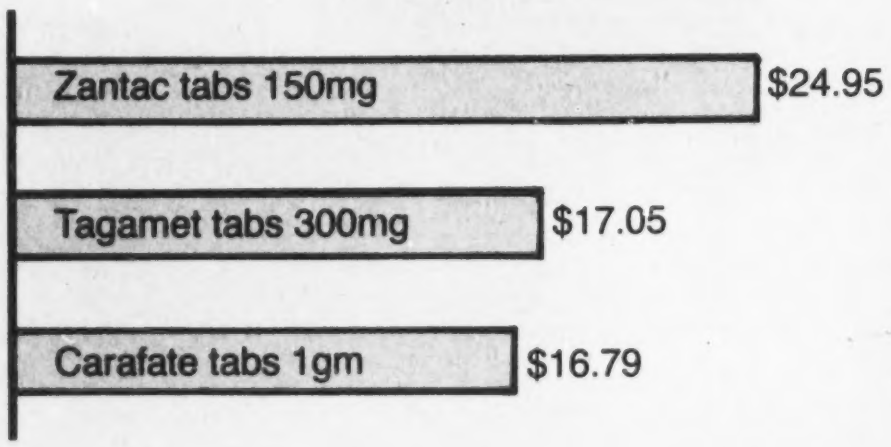
Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	12.50	20.22	16.67	20.88	25.00	33.22	28.00	51.56	53.85	60.00	41.56
% of Rx Dispensed	1.44	4.02	0.27	11.26	1.80	26.41	1.13	13.07	39.89	0.67	**100.00**
Average GM %	45.54	27.80	15.72	21.23	25.78	15.85	2.72	15.72	6.55	4.00	10.84
Profitability Ratio*	6	5	8	3	7	1	9	4	2	10	—

*Drug Store News ranked each quantity on a scale from 1-10; 10 being the most profitable quantity to dispense in terms of product movement and average gross margin.

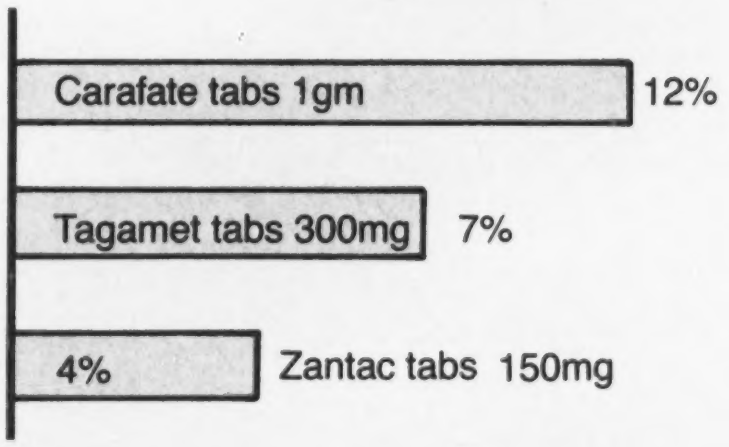
Carafate Tabs 1gm Marion—Avg. Rx #37 $16.79 Avg. % Gross Margin 12% Avg. % Refill 49%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	43.75	45.45	100.00	41.18	00.00	42.14	55.56	56.48	50.29	47.02	48.99
% of Rx Dispensed	1.62	1.11	0.10	1.72	0.10	14.19	0.91	10.95	52.23	17.03	**100.00**
Average GM %	43.56	35.81	32.08	31.09	27.41	22.94	28.07	17.47	11.24	7.23	11.76
Profitability Ratio*	5	7	9	6	10	2	8	3	1	4	—

Average Retail Price Per Script



Average % Gross Margin Per Script



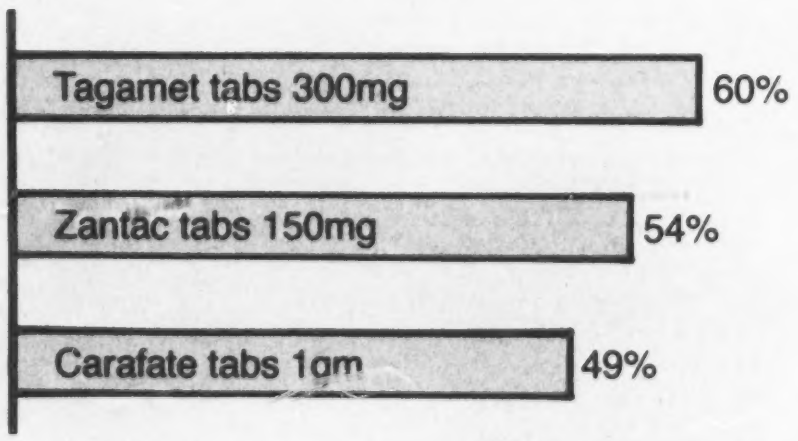
Tagamet Tabs 300mg SKF—Avg. Rx #34 $17.05 Avg. % Gross Margin 7% Avg. % Refill 60%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	57.89	62.50	100.00	40.38	41.67	58.61	57.14	57.61	61.64	61.17	60.03
% of Rx Dispensed	1.40	0.98	0.02	1.28	0.59	15.59	0.68	15.69	53.57	10.15	**100.00**
Average GM %	39.61	29.67	31.63	27.78	29.57	19.92	19.51	12.15	4.63	2.68	6.62
Profitability Ratio*	4	6	10	5	8	1	9	3	2	7	—

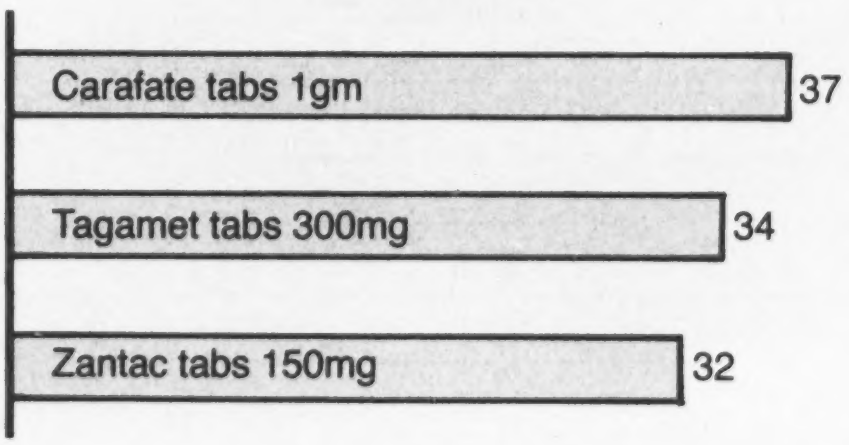
Zantac Tabs 150mg Glaxo—Avg. Rx #32 $24.95 Avg. % Gross Margin 4% Avg. % Refill 54%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	47.25	47.62	00.00	44.27	37.50	53.25	52.27	55.87	55.53	68.18	53.79
% of Rx Dispensed	2.36	3.82	0.07	4.99	0.62	25.99	1.14	9.31	51.07	0.57	**100.00**
Average GM %	22.53	17.12	9.89	7.41	11.74	7.93	10.92	– 0.23	3.42	3.74	4.33
Profitability Ratio*	4	3	9	5	7	1	6	10	2	8	—

Average Refill %



Average Quantity Dispensed Per Script

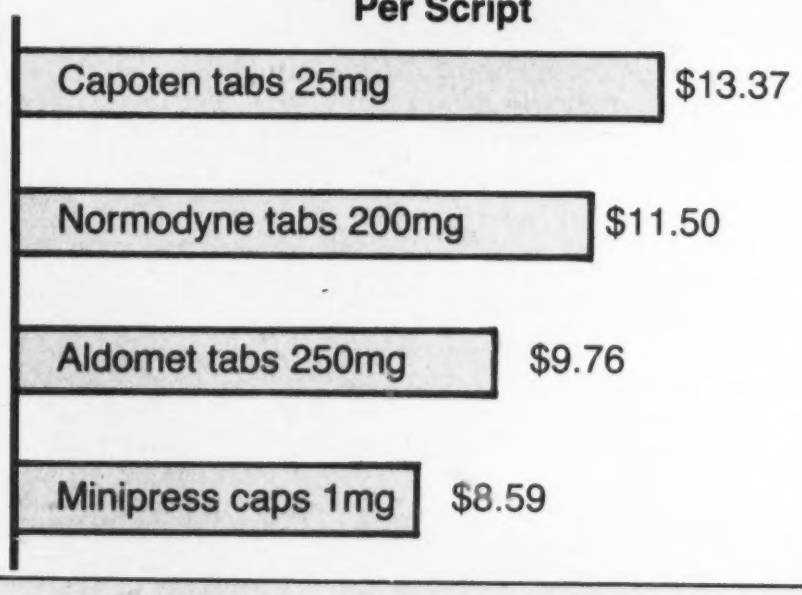


*Drug Store News ranked each quantity on a scale from 1-10; 10 being the most profitable quantity to dispense in terms of product movement and average gross margin.

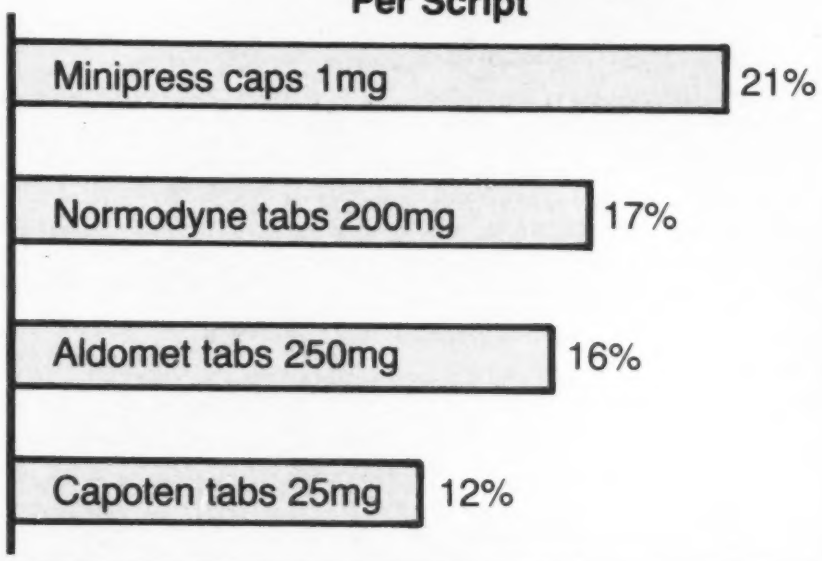
Minipress Caps 1mg Pfizer—Avg. Rx #32 $8.59 Avg. % Gross Margin 21% Avg. % Refill 68%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	00.00	80.00	00.00	60.00	75.00	56.00	46.15	75.47	70.58	69.44	68.29
% of Rx Dispensed	0.27	0.90	00.00	0.90	0.36	13.55	1.17	4.78	71.54	6.50	**100.00**
Average GM %	66.00	52.20	00.00	48.67	51.73	39.15	36.77	36.41	19.28	12.12	20.80
Profitability Ratio*	9	5	10	6	8	2	7	3	1	4	—

Average Retail Price Per Script



Average % Gross Margin Per Script



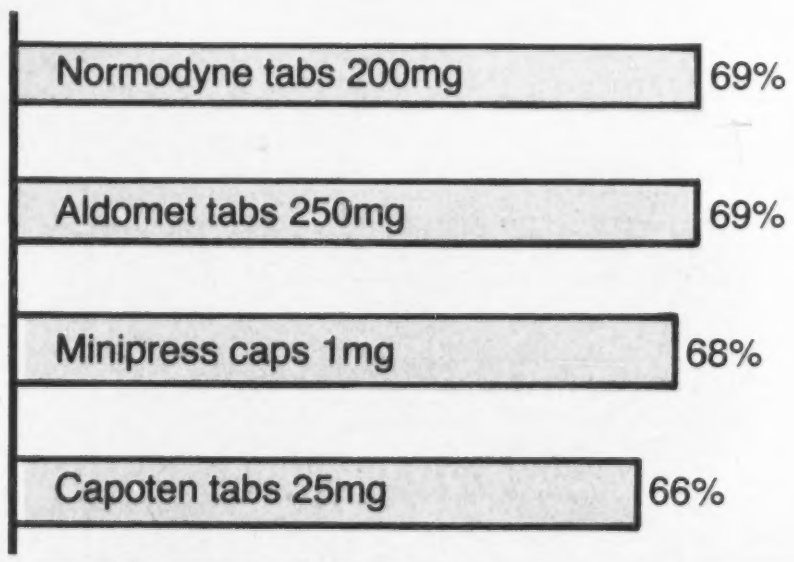
Capoten Tabs 25mg Squibb—Avg. Rx #32 $13.37 Avg. % Gross Margin 12% Avg. % Refill 66%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	57.14	54.55	100.00	73.68	83.33	62.66	89.47	63.07	67.44	64.29	66.32
% of Rx Dispensed	0.42	1.33	0.06	1.15	0.36	14.11	1.15	10.66	65.65	5.08	**100.00**
Average GM %	43.92	40.97	41.58	34.64	45.45	26.70	26.20	21.21	10.43	5.30	12.31
Profitability Ratio*	8	4	10	5	9	2	6	3	1	7	—

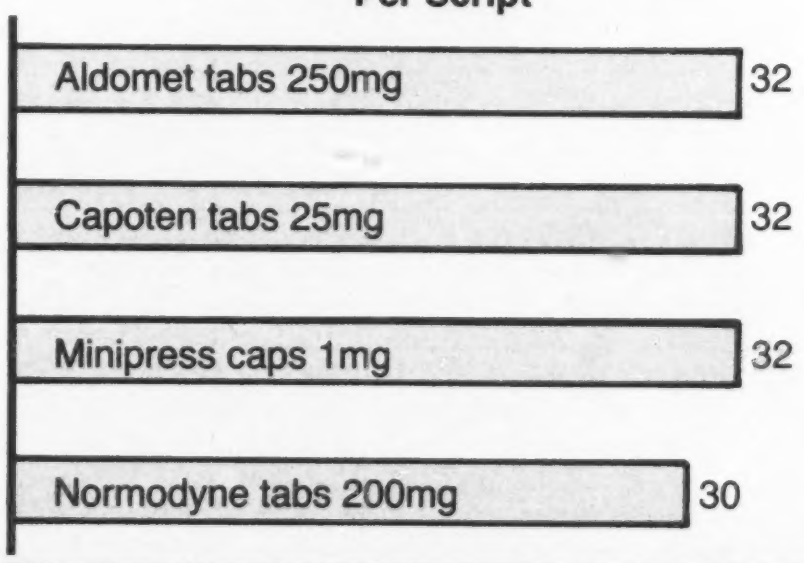
Normodyne Tabs 200mg Schering—Avg. Rx #30 $11.50 Avg. % Gross Margin 17% Avg. % Refill 69%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	100.00	42.86	100.00	100.00	00.00	75.68	37.50	63.64	68.78	90.91	68.75
% of Rx Dispensed	0.31	2.18	0.31	0.31	00.00	11.56	2.50	10.31	69.06	3.43	**100.00**
Average GM %	45.32	47.50	41.76	49.86	00.00	32.64	33.42	21.58	15.63	8.52	17.25
Profitability Ratio*	8	4	9	7	10	2	5	3	1	6	—

Average Refill %



Average Quantity Dispensed Per Script



Aldomet Tabs 250mg MSD—Avg. Rx #32 $9.76 Avg. % Gross Margin 16% Avg. % Refill 69%

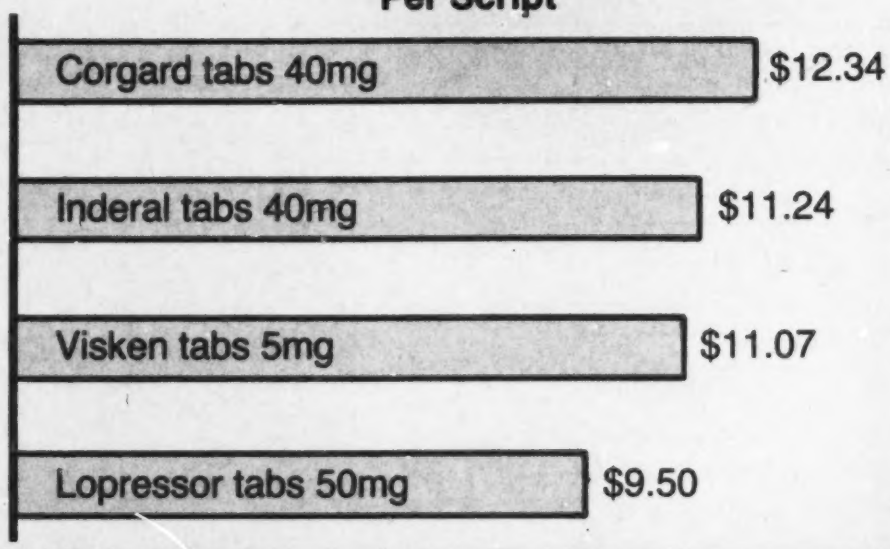
Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% of Refill	72.73	50.00	00.00	53.85	66.67	67.24	73.68	68.22	69.01	73.75	69.14
% of Rx Dispensed	0.66	0.24	00.00	0.78	0.18	10.48	1.14	6.44	70.40	9.64	**100.00**
Average GM %	54.21	51.18	00.00	46.59	46.78	37.07	37.52	26.07	14.68	10.64	15.98
Profitability Ratio*	6	8	10	7	9	2	5	3	1	4	—

*Drug Store News ranked each quantity on a scale from 1-10; 10 being the most profitable quantity to dispense in terms of product movement and average gross margin.

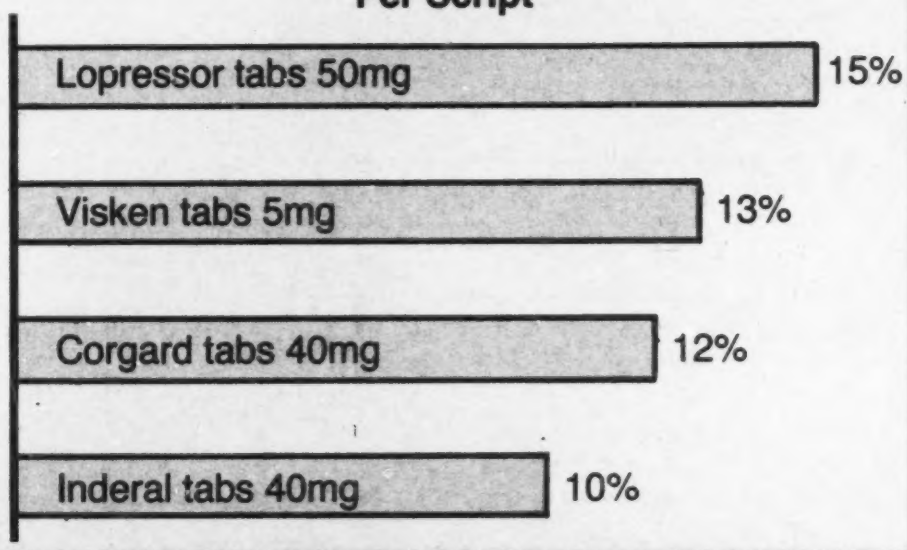
Corgard Tabs 40mg Squibb—Avg. Rx #25 $12.34 Avg. % Gross Margin 12% Avg. % Refill 68%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	50.00	61.29	77.78	58.82	75.00	69.08	71.83	69.57	68.33	45.45	68.37
% of Rx Dispensed	0.81	3.16	0.91	1.73	0.40	42.24	7.24	11.73	30.61	1.12	**100.00**
Average GM %	52.75	32.29	26.64	24.46	31.70	14.52	21.11	15.96	8.68	5.13	12.29
Profitability Ratio*	6	5	8	7	9	1	4	3	2	10	—

Average Retail Price Per Script



Average % Gross Margin Per Script



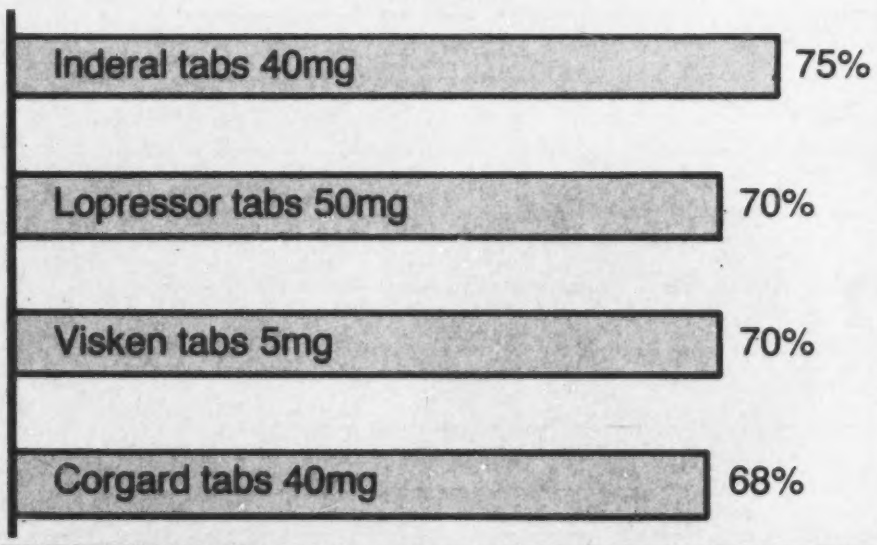
Inderal Tabs 40mg Ayerst—Avg. Rx #36 $11.24 Avg. % Gross Margin 10% Avg. % Refill 75%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	50.00	78.57	100.00	16.67	100.00	70.13	50.00	71.05	77.35	69.81	74.90
% of Rx Dispensed	0.31	1.10	0.07	0.47	0.23	6.05	0.31	5.97	68.76	16.67	**100.00**
Average GM %	54.89	33.34	36.94	34.51	44.98	32.49	31.24	21 32	9.69	6.54	10.03
Profitability Ratio*	6	5	10	7	8	2	9	3	1	4	—

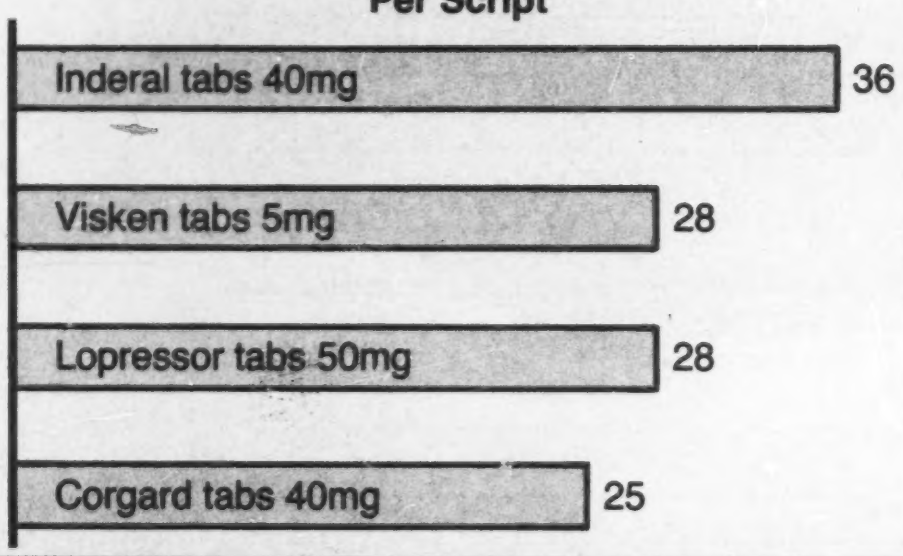
Lopressor Tabs 50mg Geigy—Avg. Rx #28 $9.50 Avg. % Gross Margin 15% Avg. % Refill 70%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	25.00	75.00	00.00	33.33	25.00	69.94	72.94	73.23	69.61	71.19	69.71
% of Rx Dispensed	0.55	1.65	0.04	0.55	0.18	21.98	3.90	9.08	59.33	2.70	**100.00**
Average GM %	49.43	39.87	48.19	42.23	28.61	28.04	28.95	21.78	11.81	9.26	15.03
Profitability Ratio*	6	5	10	8	9	2	4	3	1	7	—

Average Refill %



Average Quantity Dispensed Per Script



Visken Tabs 5mg Sandoz—Avg. Rx #28 $11.07 Avg. % Gross Margin 13% Avg. % Refill 70%

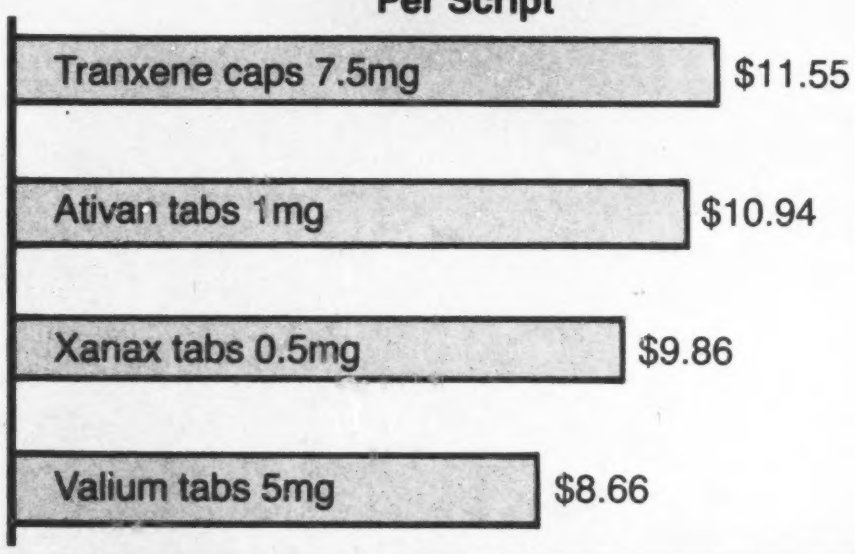
Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	75.00	100.00	00.00	100.00	00.00	61.29	100.00	75.00	70.20	68.75	70.05
% of Rx Dispensed	1.04	1.30	0.26	0.52	00.00	16.14	1.82	8.33	66.40	4.16	**100.00**
Average GM %	58.42	56.99	42.29	24.35	00.00	29.75	26.82	22.68	11.20	– 0.66	13.08
Profitability Ratio*	5	4	8	7	9	2	6	3	1	10	—

*Drug Store News ranked each quantity on a scale from 1-10; 10 being the most profitable quantity to dispense in terms of product movement and average gross margin.

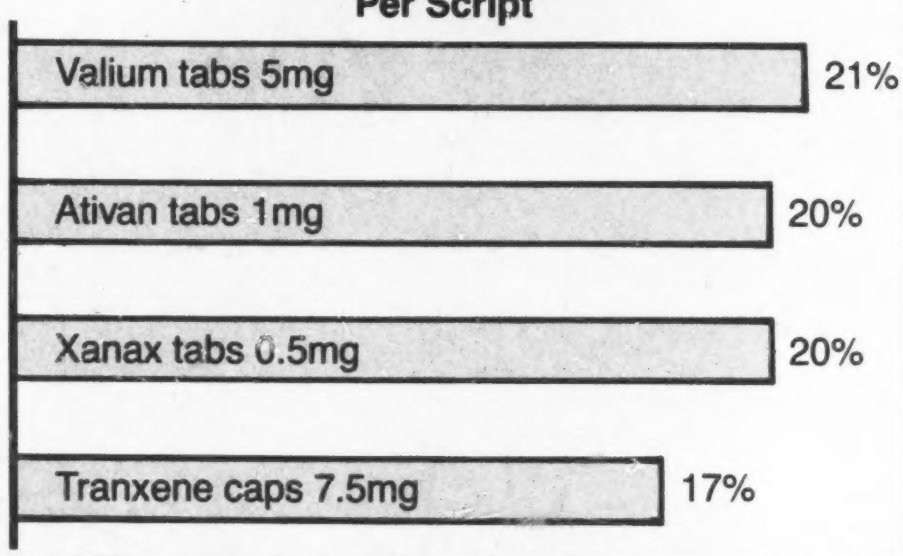
Tranxene Caps 7.5mg Abbott—Avg. Rx #28 $11.55 Avg. % Gross Margin 17% Avg. % Refill 45%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	36.84	40.91	00.00	25.00	44.83	44.27	50.00	43.48	47.96	63.16	45.17
% of Rx Dispensed	1.74	2.02	00.00	3.31	2.66	28.88	2.20	19.04	38.36	1.74	**100.00**
Average GM %	50.10	41.51	00.00	32.29	32.77	27.31	26.56	18.81	12.11	8.93	17.08
Profitability Ratio*	5	7	10	4	6	1	8	3	2	9	—

Average Retail Price Per Script



Average % Gross Margin Per Script



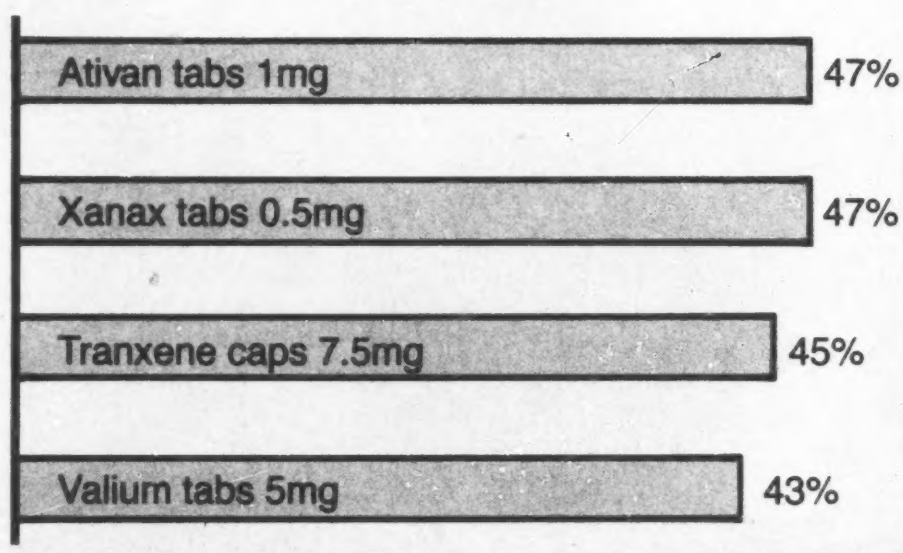
Valium Tabs 5mg Roche—Avg Rx #29 $8.66 Avg. % Gross Margin 21% Avg. % Refill 43%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	14.41	33.33	00.00	26.88	43.59	39.90	42.50	45.85	48.99	58.82	42.81
% of Rx Dispensed	3.82	2.17	0.03	5.51	1.34	27.66	1.37	22.86	34.01	1.17	**100.00**
Average GM %	58.93	48.48	40.44	42.07	39.04	32.42	32.19	23.64	14.12	13.00	21.47
Profitability Ratio*	5	6	10	4	7	1	8	2	3	9	—

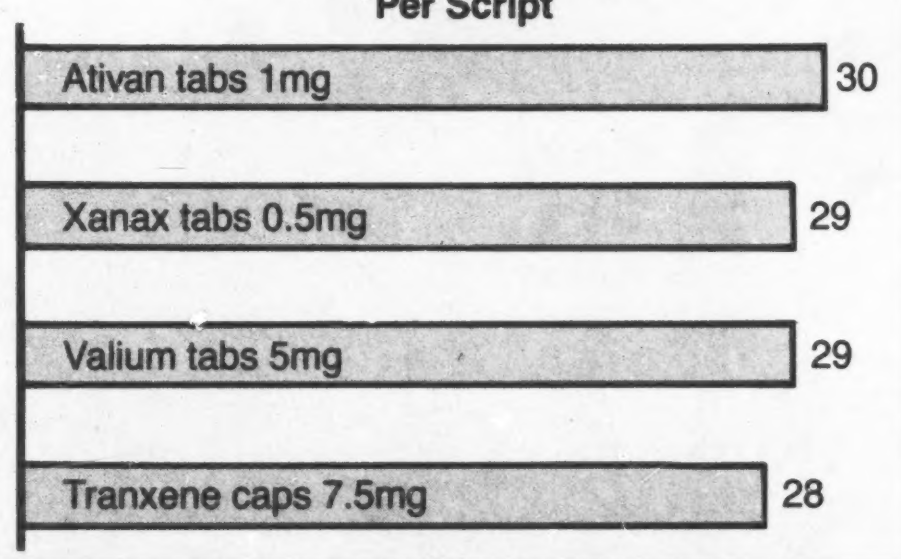
Xanax Tabs 0.5mg Upjohn—Avg. Rx #29 $9.86 Avg. % Gross Margin 20% Avg. % Refill 47%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	24.32	41.82	00.00	28.95	29.27	43.36	51.72	45.90	50.60	48.48	45.60
% of Rx Dispensed	1.58	2.35	0.08	3.26	1.75	31.66	1.24	19.34	35.86	2.83	**100.00**
Average GM %	55.21	47.75	49.46	40.50	39.19	31.28	23.60	22.07	14.76	11.41	20.45
Profitability Ratio*	6	5	10	4	7	1	9	3	2	8	—

Average Refill %



Average Quantity Dispensed Per Script



Ativan Tabs 1mg Wyeth—Avg. Rx #30 $10.94 Avg. % Gross Margin 20% Avg. % Refill 47%

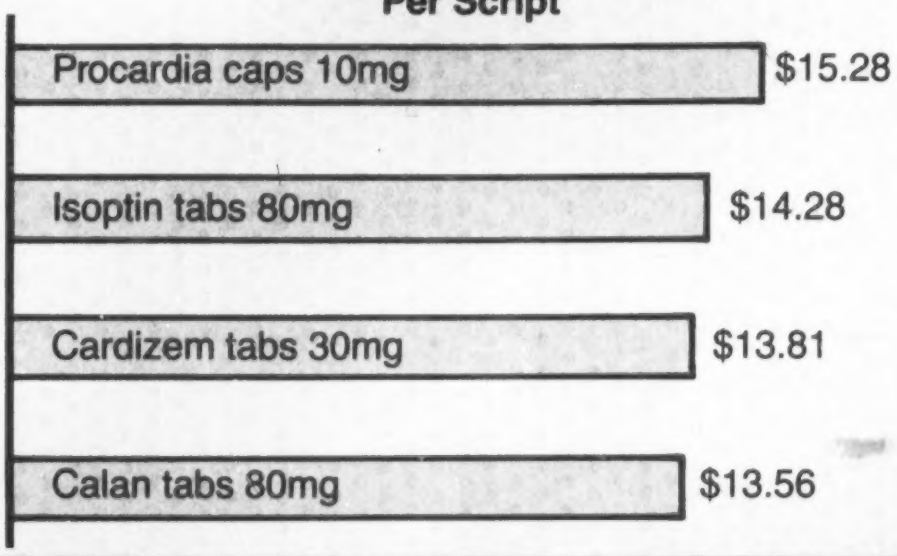
Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	20.00	30.95	50.00	27.78	30.77	49.65	52.17	47.68	49.39	68.00	46.62
% of Rx Dispensed	4.00	3.05	0.14	3.92	1.89	30.76	1.67	17.23	35.49	1.81	**100.00**
Average GM %	53.07	44.67	39.71	36.92	35.71	28.72	21.32	20.51	14.60	5.15	19.50
Profitability Ratio*	4	6	10	5	7	1	8	3	2	9	—

*Drug Store News ranked each quantity on a scale from 1-10; 10 being the most profitable quantity to dispense in terms of product movement and average gross margin.

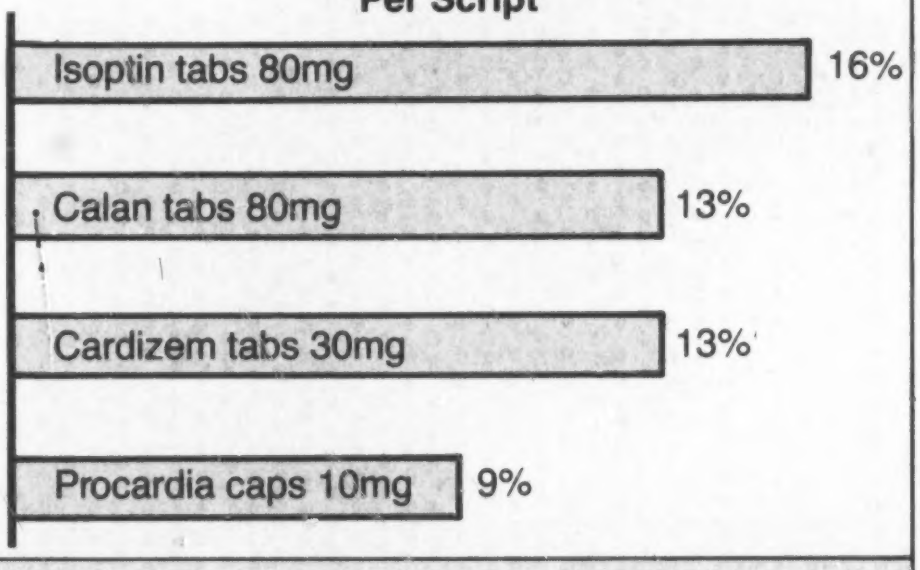
Calan Tabs 80mg Searle—Avg. Rx #35 $13.56 Avg. % Gross Margin 13% Avg. % Refill 66%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	00.00	50.00	00.00	57.14	00.00	63.64	100.00	62.90	69.21	58.33	66.42
% of Rx Dispensed	0.14	0.59	0.14	1.04	0.44	8.24	0.59	9.29	68.66	10.79	**100.00**
Average GM %	56.82	42.78	45.12	39.53	32.27	32.43	19.66	23.22	11.58	8.56	12.67
Profitability Ratio*	9	6	10	5	7	2	8	3	1	4	—

Average Retail Price Per Script



Average % Gross Margin Per Script



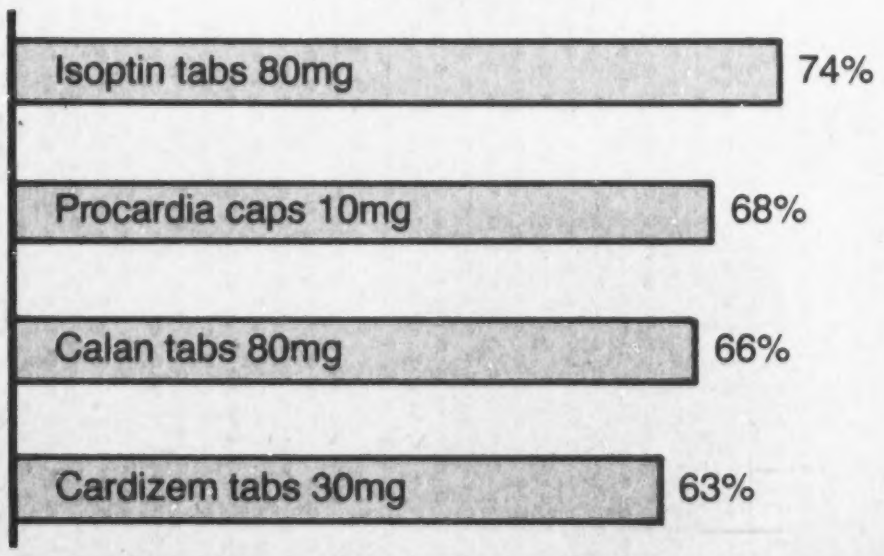
Cardizem Tabs 30mg Marion—Avg. Rx #37 $13.81 Avg. % Gross Margin 13% Avg. % Refill 63%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	00.00	71.43	00.00	80.00	00.00	60.00	00.00	65.79	68.51	71.06	68.34
% of Rx Dispensed	0.20	0.47	00.00	0.67	0.06	4.75	00.00	5.16	70.10	18.54	**100.00**
Average GM %	61.89	49.08	00.00	36.02	43.66	33.23	00.00	24.19	12.39	10.19	12.67
Profitability Ratio*	7	6	9	5	8	3	10	4	1	2	—

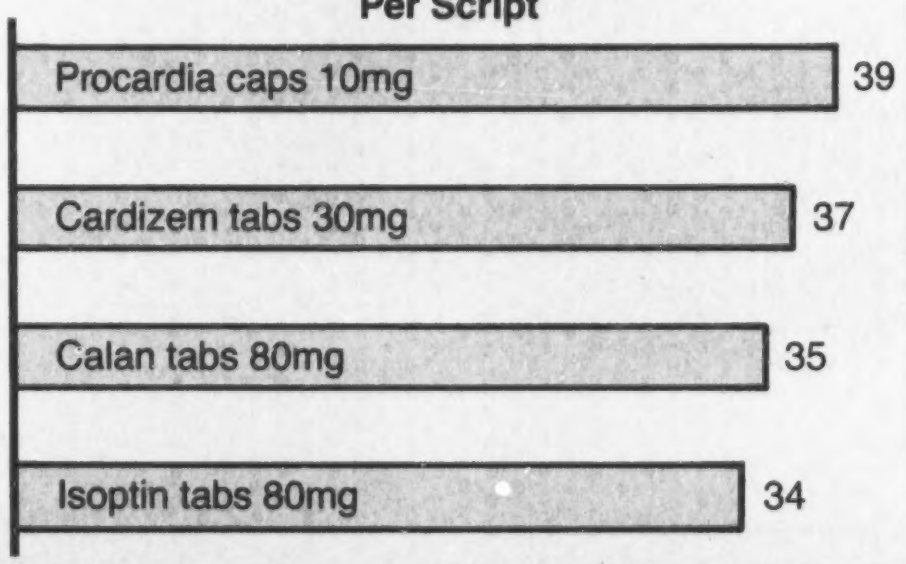
Procardia Caps 10mg Pfizer—Avg. Rx #39 $15.28 Avg. % Gross Margin 9% Avg. % Refill 68%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	50.00	28.57	100.00	25.00	76.92	53.97	66.67	65.87	69.02	69.98	67.98
% of Rx Dispensed	0.35	0.24	0.14	0.56	0.45	4.43	0.10	5.87	71.83	15.93	**100.00**
Average GM %	45.22	44.71	45.01	35.68	39.44	32.81	39.18	22.75	9.88	3.62	9.25
Profitability Ratio*	7	8	9	5	6	2	10	3	1	4	—

Average Refill %



Average Quantity Dispensed Per Script



Isoptin Tabs 80mg Knoll—Avg. Rx #34 $14.35 Avg. % Gross Margin 16% Avg. % Refill 74%

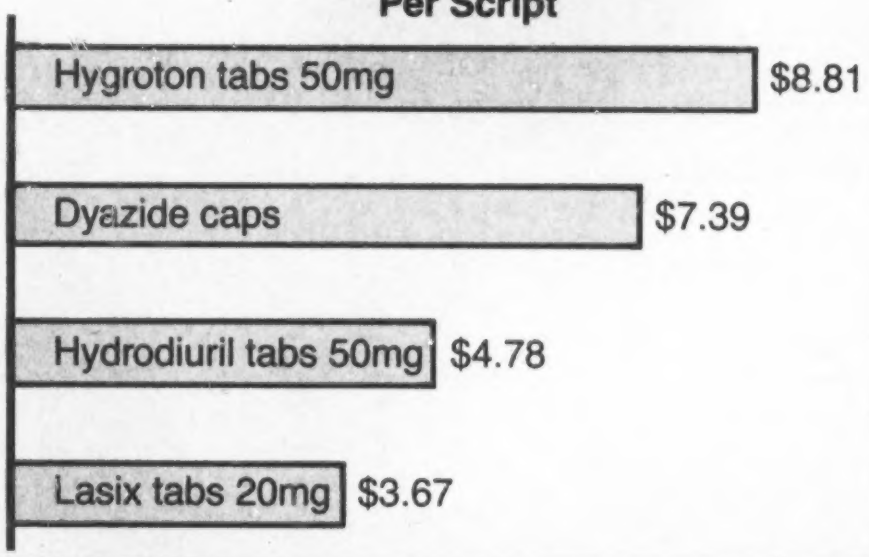
Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	00.00	00.00	00.00	33.33	25.00	82.86	50.00	72.09	74.72	72.50	73.96
% of Rx Dispensed	00.00	0.20	00.00	0.62	0.83	7.29	0.41	8.95	73.33	8.33	**100.00**
Average GM %	00.00	60.20	00.00	46.64	38.38	40.60	35.68	24.76	15.06	8.97	15.79
Profitability Ratio*	9	8	10	6	5	2	7	3	1	4	—

*Drug Store News ranked each quantity on a scale from 1-10; 10 being the most profitable quantity to dispense in terms of product movement and average gross margin.

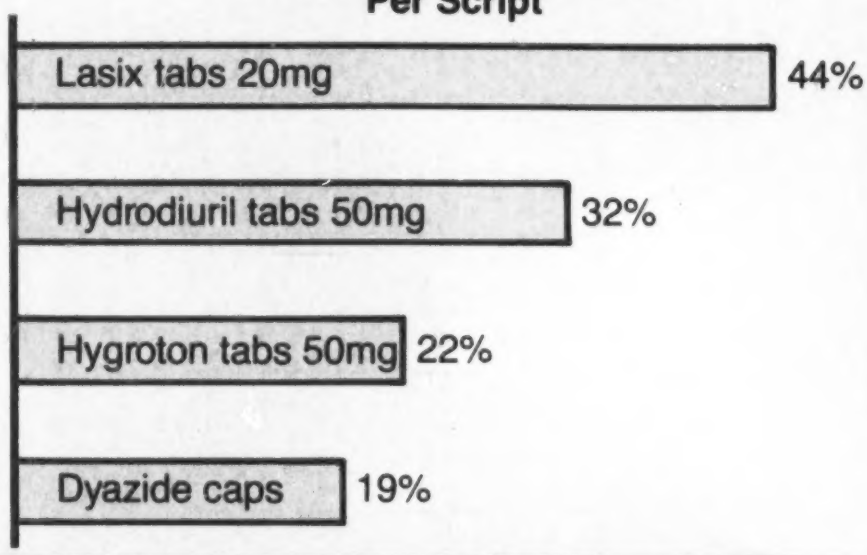
Dyazide Caps SKF—Avg. Rx #27 $7.39 Avg. % Gross Margin 19% Avg. % Refill 66%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	46.15	62.34	86.67	51.72	29.58	63.68	72.18	70.61	67.05	67.81	65.66
% of Rx Dispensed	0.97	1.65	0.16	0.93	0.76	38.45	5.72	7.91	41.83	1.57	**100.00**
Average GM %	63.61	50.10	47.39	42.31	35.35	32.27	32.92	24.16	12.10	7.90	19.39
Profitability Ratio*	6	5	10	7	8	1	4	3	2	9	—

Average Retail Price Per Script



Average % Gross Margin Per Script



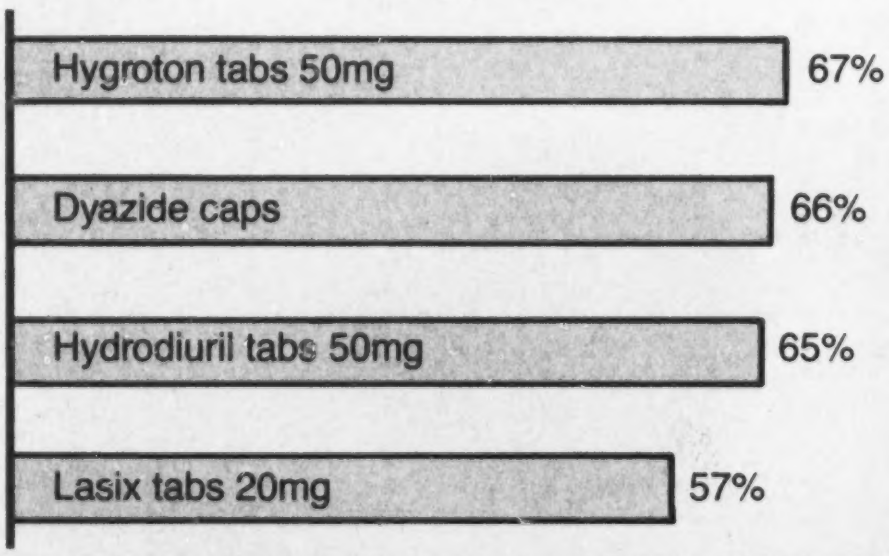
Hydrodiuril Tabs 50mg MSD—Avg. Rx #27 $4.78 Avg. % Gross Margin 32% Avg. % Refill 65%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	33.33	60.00	00.00	12.50	00.00	61.43	87.88	58.89	70.57	58.33	65.07
% of Rx Dispensed	1.31	1.45	00.00	1.16	0.43	32.45	4.80	13.10	43.52	1.74	**100.00**
Average GM %	72.06	69.41	00.00	54.73	53.14	48.34	46.42	35.43	23.57	15.03	31.75
Profitability Ratio*	6	5	10	7	9	1	4	3	2	8	—

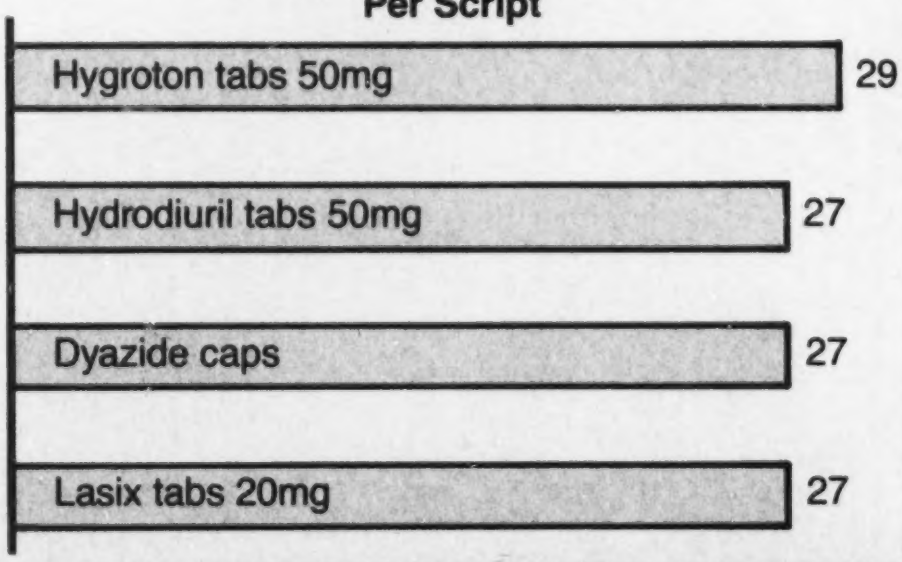
Lasix Tabs 20mg Hoechst—Avg. Rx #27 $3.67 Avg. % Gross Margin 44% Avg. % Refill 57%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	58.33	30.43	75.00	25.81	00.00	53.36	84.00	67.96	63.11	77.78	57.09
% of Rx Dispensed	1.16	2.23	0.38	3.00	0.77	49.12	2.42	10.00	30.00	0.87	**100.00**
Average GM %	76.28	68.26	69.48	64.87	58.92	53.00	56.94	45.33	33.00	21.14	43.51
Profitability Ratio*	7	5	9	4	8	1	6	3	2	10	—

Average Refill %



Average Quantity Dispensed Per Script



Hygroton Tabs 50mg USV—Avg. Rx #29 $8.81 Avg. % Gross Margin 22% Avg. % Refill 67%

Quantity Dispensed	0-12	13-16	17-18	19-20	21-24	25-30	31-36	37-50	51-100	100+	Total/Avg.
% Refill	100.00	81.25	00.00	57.14	50.00	66.27	65.52	69.05	68.09	75.00	67.48
% of Rx Dispensed	0.54	4.33	00.00	1.89	1.62	45.79	7.85	11.38	25.47	1.08	**100.00**
Average GM %	42.78	46.15	00.00	38.77	33.33	31.14	27.30	25.02	12.57	5.81	21.82
Profitability Ratio*	8	5	10	6	7	1	4	3	2	9	—

*Drug Store News ranked each quantity on a scale from 1-10; 10 being the most profitable quantity to dispense in terms of product movement and average gross margin.

Top 100 Bulk Buying Chart

Product	Manufacturer	Small Size	Small Price	Bulk Size	Bulk Price	Savings $	Savings %
Acetaminophen w/codeine 30mg	Rugby	100	$ 8.05	500	$ 37.75	2.50	6.2
Achromycin V capsules 250mg	Lederle	100	6.19	1,000	35.36	26.54	42.9
Aldomet tablets 250mg	MSD	100	21.03	1,000	204.04	6.26	3.0
Aldomet tablets 500mg	MSD	100	38.40	500	189.31	2.69	1.4
Aldoril tablets 25mg	MSD	100	29.83	1,000	289.56	8.74	2.9
Amoxil capsules 250mg	Beecham	100	21.07	500	100.36	4.99	4.7
Amoxil capsules 500mg	Beecham	100	39.42	500	185.27	11.83	6.0
Anaprox tablets 275mg	Syntex	100	48.25	500	232.94	8.31	3.4
Ativan tablets 1mg	Wyeth	100	35.88	1,000	340.91	17.89	5.0
Bactrim DS tablets	Roche	100	58.60	500	236.57	56.43	19.3
Capoten tablets 25mg	Squibb	100	33.19	1,000	328.23	3.67	1.1
Catapres tablets 0.1mg	Boehringer Ingelheim	100	21.61	1,000	209.68	6.42	3.0
Ceclor capsules 250mg	Lilly	15	16.37	100	103.86	5.27	4.8
Corgard tablets 40mg	Squibb	100	45.36	1,000	438.96	14.64	3.2
Coumadin tablets 5mg	Dupont	100	18.54	1,000	176.52	8.88	4.8
Dalmane capsules 15mg	Roche	100	25.92	500	128.60	1.00	0.8
Dalmane capsules 30mg	Roche	100	28.21	500	140.05	1.00	0.7
Darvocet N 100mg	Lilly	100	29.83	500	141.78	7.37	4.9
Desyrel tablets 50mg	Mead Johnson	100	32.05	1,000	276.72	43.78	13.7
Diabinese tablets 250mg	Pfizer	100	36.32	1,000	348.59	14.61	4.0
Dilantin capsules 100mg	Parke Davis	100	10.38	1,000	80.76	23.04	22.2
Donnatal tablets	A. H. Robins	100	4.70	1,000	42.25	4.75	10.1
Dyazide capsules	SKF	100	22.40	1,000	215.90	8.10	3.6
E-Mycin 250 tablets	Upjohn	100	20.36	500	101.00	0.80	0.8
E-Mycin 333 tablets	Upjohn	100	27.15	500	134.69	1.06	0.8
E.E.S. 400 Filmtabs	Abbott	100	21.08	500	100.12	5.28	5.0
Empirin w/codeine #3	Burroughs Wellcome	100	14.30	1,000	103.15	39.85	27.9
Eryc capsules 250mg	Parke Davis	100	23.63	500	115.18	2.97	2.5
Erythrocin tablets 250mg	Abbott	100	12.96	500	61.54	3.26	5.0
Feldene capsules 20mg	Pfizer	100	128.46	500	628.97	13.33	2.1
Fiorinal tablets	Sandoz	100	17.94	1,000	169.14	10.26	5.7
Flexeril tablets 10mg	MSD	30	17.46	100	54.95	3.25	5.6
Furosemide tablets 40mg	Rugby	100	6.30	1,000	28.06	34.94	55.5
Halcion tablets 0.25mg	Upjohn	100	29.81	500	144.63	4.42	3.0
Hydrochlorothiazide tablets 50mg	Rugby	100	1.50	1,000	7.13	7.87	52.5
Inderal tablets 10mg	Ayerst	100	12.83	1,000	123.10	5.20	4.1
Inderal tablets 20mg	Ayerst	100	18.01	1,000	173.18	6.92	3.8
Inderal tablets 40mg	Ayerst	100	23.60	1,000	226.80	9.20	3.9
Indocin SR capsules 75mg	MSD	30	23.98	60	47.94	0.02	0.0
Indocin capsules 25mg	MSD	100	33.13	1,000	321.29	10.01	3.0
K-tabs 750mg	Abbott	100	11.07	1,000	106.26	4.44	4.0
Keflex capsules 250mg	Dista	20	15.29	100	72.82	3.63	4.7
Keflex capsules 500mg	Dista	20	30.09	100	143.10	7.35	4.9
Klotrix tablets 10mEq	Mead Johnson	100	11.01	1,000	98.62	11.48	10.4
Lanoxin tablets 0.125mg	Burroughs Wellcome	100	7.20	1,000	51.00	21.00	29.2
Lanoxin tablets 0.25mg	Burroughs Wellcome	100	7.20	5,000	239.57	120.43	33.5
Lasix tablets 20mg	Hoechst	100	8.85	1,000	79.85	8.65	9.8
Lasix tablets 40mg	Hoechst	100	12.45	1,000	112.35	12.15	9.8
Librax capsules	Roche	100	31.54	500	156.70	1.00	0.6
Lomotil tablets	Searle	100	24.16	1,000	213.69	27.91	11.8

Top 100 Bulk Buying Chart

Product	Manufacturer	Small Size	Small Price	Bulk Size	Bulk Price	Savings $	Savings %
Lopressor tablets 50mg	Geigy	100	25.32	1,000	245.39	7.81	3.1
Lopressor tablets 100mg	Geigy	100	42.90	1,000	415.84	13.16	3.1
Maxzide tablets	Lederle	100	27.72	500	135.13	3.47	2.5
Micro-K tablets 8mEq	A. H. Robins	100	8.60	500	38.50	4.50	10.5
Micronase tablets 5mg	Upjohn	100	33.70	1,000	281.25	55.75	16.5
Minipress capsules 1mg	Pfizer	250	50.18	1,000	196.79	3.93	2.0
Minipress capsules 2mg	Pfizer	250	69.86	1,000	273.93	5.51	2.0
Motrin tablets 400mg	Upjohn	100	17.31	500	71.80	14.75	17.0
Motrin tablets 600mg	Upjohn	100	24.56	500	101.66	21.14	17.2
Motrin tablets 800mg	Upjohn	100	32.24	500	128.93	32.27	20.0
Nalfon tablets 600mg	Dista	100	41.14	500	199.83	5.87	2.9
Naprosyn tablets 250mg	Syntex	100	49.82	500	242.81	6.29	2.5
Naprosyn tablets 375mg	Syntex	100	63.46	500	307.79	9.51	3.0
Naprosyn tablets 500mg	Syntex	100	78.22	500	379.31	11.79	3.0
Omnipen capsules 250mg	Wyeth	100	13.16	500	62.71	3.09	4.7
Omnipen capsules 500mg	Wyeth	100	25.70	500	120.94	7.56	5.9
Ornade spansules modified	SKF	50	21.10	500	204.75	6.25	2.9
Parafon Forte tablets	McNeil	100	33.60	500	162.96	5.04	3.0
Percocet-5 tablets	Dupont	100	26.38	500	116.88	15.02	11.4
Percodan tablets	Dupont	100	25.20	1,000	238.50	13.50	5.4
Persantine tablets 25mg	Boehringer Ingelheim	100	15.58	1,000	147.82	7.98	5.1
Premarin tablets 0.625mg	Ayerst	100	15.35	1,000	146.18	7.32	4.8
Premarin tablets 1.25mg	Ayerst	100	20.99	1,000	200.12	9.78	4.7
Procardia capsules 10mg	Pfizer	100	29.50	300	86.72	1.78	2.0
Provera tablets 10mg	Upjohn	100	39.19	500	195.00	0.95	2.4
Reglan tablets 10mg	A. H. Robins	100	24.75	500	117.40	6.35	5.1
Restoril capsules 30mg	Sandoz	100	30.96	500	137.16	17.64	11.4
Rufen tablets 400mg	Boots	100	11.64	500	51.84	6.36	10.9
Rufen tablets 600mg	Boots	100	16.32	500	72.60	9.00	11.0
Septra DS tablets	Burroughs Wellcome	100	53.76	250	108.52	25.88	19.3
Slow K tablets	Ciba	100	9.35	1,000	90.74	2.76	3.0
Synalgos DC capsules	Wyeth	100	30.41	500	144.56	7.49	4.9
Synthroid tablets 0.1mg	Flint	100	8.28	1,000	70.38	12.42	15.0
Synthroid tablets 0.15mg	Flint	100	9.94	1,000	84.48	14.92	15.0
Synthroid tablets 0.2mg	Flint	100	11.91	1,000	101.25	17.85	15.0
Tegretol tablets 200mg	Geigy	100	24.30	1,000	235.47	7.53	3.1
Theo-Dur tablets 200mg	Key	100	14.48	1,000	131.59	13.21	9.1
Theo-Dur tablets 300mg	Key	100	17.21	1,000	157.93	14.17	8.3
Tranxene capsules 3.75mg	Abbott	100	29.50	500	144.42	3.08	2.1
Tranxene capsules 7.5mg	Abbott	100	36.69	500	180.70	2.75	1.5
Tylenol w/codeine #3 tablets	McNeil	100	12.08	1,000	111.17	9.66	8.0
Tylenol w/codeine #4 tablets	McNeil	100	22.74	500	107.86	5.84	5.1
Valium tablets 2mg	Roche	100	18.76	500	92.80	1.00	0.7
Valium tablets 5mg	Roche	100	29.24	500	145.20	1.00	0.7
Valium tablets 10mg	Roche	100	49.32	500	245.60	1.00	0.4
Vicodin tablets	Knoll	100	21.62	500	100.60	7.50	6.9
Xanax tablets 0.25mg	Upjohn	100	23.54	500	114.18	3.52	3.0
Xanax tablets 0.5mg	Upjohn	100	30.35	500	147.14	4.61	3.0
Zyloprim tablets 300mg	Burroughs Wellcome	100	29.90	500	143.06	6.44	4.4

Prices are based on Average Wholesale Price

Source: Medi-Span, Decision Data

Guide to Pharmacy Computer Systems

Name of system	Name of company	Entry level price	Price updates: monthly charge	Price updates: source	Hardware (cpu only)	Entry level: storage	Entry level: Main memory	Entry level: Backup: type, capacity	Maintenance charges
EtrebySystem	Etreby Computer Co. Inc. 17870 Castleton St. Suite #235 Industry, Calif. 91748	$8,995*	$25	Etreby	IBM-XT or AT	20MB	512KB	Floppy, N/A	H-$60/mo. S-$70/mo.
First Data Bank	First Data Bank 1111 Bayhill Drive Suite #350 San Bruno, Calif. 94066	$10,000/ yr-S	$20	Self	Most any main frame	N/A	N/A	N/A	N/A
FoxMeyer-TBL	FoxMeyer-TBL Co. 150 Bank St. Southlake, Tex. 76092	$15,995*	incl. in hardware maint.	N/A	Motorola 68000	41MB	768KB	Tape, 60MB	H-$220/mo. S-incl. in hardware maint.
Freedom Data	Freedom Data Systems Inc. 47 Belknap Ave. Newport, N.H. 03773	$12,995*	N/A	Medi-Span	Tandy 3000HD	20MB	512KB	Tape, 20MB	H-$75/mo. S-$85/mo.
'The Solution'	General Computer Corp. 2045 Midway Drive Twinsburg, Ohio 44087	$9,995*	varies	Medi-Span	NEC 215-201	20/40MB formatted	1054KB	8 track tape, 32MB, disk-to-disk, floppy	H-approx. $125/mo. S-$81.25/ mo.
RxNET	Good Health Systems Riverside Industrial Parkway Portland, Me. 04210	$8,900*	$50	varies	Leading Edge D	20MB	256KB	Floppy, 360KB	H-$55-mo. S-$50/mo.
HBS	Health Business Systems Inc. 1300 Industrial Highway, Suite 2 Southampton, Pa. 18966	$9,495*	$20	N/A	DEC PDP 11/23 and others	20MB	256KB	Bernoulli cartridge, N/A	H- $100/mo. S-
COMPASS	Honeywell 200 Smith St. (MS 440) Waltham, Mass. 02154	$19,995*	$25	N/A	Honeywell DPS 6/22	28MB	512KB	Floppy, 650KB	H-$89/mo. S-$25/mo.
Inte-Rx	Interactive Systems & Management Corp. 1500 Cardinal Drive Little Falls, N.J. 07424	N/A	N/A	First Data Bank	DEC 11s, IBM PC	28MB	256-512 KB	Tape streamer, N/A	H-$50-200/ mo. S-$150/mo.
Mavis	Mavis Computer Systems 11257 Comoa Road Rancho Cordova, Calif. 95670	$10,790*	$45	Medi-Span	Alpha Micro	20MB	512KB	Video tape, N/A	H- $140/mo. S-
Datastat PC	National Data Corp. Health Care Data Services Div. One National Data Plaza Corp. Square Atlanta, Ga. 30329	$11,595*	N/A	N/A	IBM PC/XT	10MB	256KB	Floppy, 360KB	H-$67/mo. S-$100/mo.
NCRx Pharmacy Management System	NCR Corporation United States Data Processing Group USG-3 Dayton, Ohio 45479	$14,000*	$50	N/A	NCR PC6	20MB	256KB	Tape, 10MB	H-varies S-$50/mo.

Guide to Pharmacy Computer Systems

Name of system	Name of company	Entry level price	Price updates: monthly charge	Price updates: source	Hardware (cpu only)	Entry level: storage	Entry level: Main memory	Entry level: Backup: type, capacity	Maintenance charges
Total Solution	Norand Corp. 550 Second St. SE Cedar Rapids, Iowa 52401	$14,995* $7,500-S	$55	BlueBook	IBM AT	40MB	512KB	Tape, N/A	H-$95-120/mo. S-$50-75/mo.
pcl	pcl Professional Systems Inc. Suite 100 300 North Crockett Granbury, Tex. 76048	$11,875*	varies	Medi-Span or Update	IBM PC/XT, PC/AT or AT&T 6300	20MB	512KB	Diskette or streamer tape, N/A	H-varies S-$75/mo.
PDX	PDX Inc. 300 North Crockett Suite 100 Granbury, Tex. 76048	N/A	varies	Medi-Span Update, First Data Bank, FoxMeyer	IBM PC/AT or PC/RT, NCR Tower, AT&T 3B1	70MB	2MB	Streamer tape, N/A	H-varies S-$75/mo.
PRX	PRX Pharmacy Systems 5766 Central Ave. Boulder, Colo. 80301	$9,995* $5,995-S	$60	Medi-Span	Data General	10MB	256KB	Diskette, cartridge tape or reel-to-reel tape, N/A	H-varies S-$68/mo.
PHARM-HAND	PHARM-HAND/ Specomp Inc. 401 Opa Locka Blvd. Miami, Fla. 33054	$4,000*	$50	Gulf Drug	Apple II series	N/A	48KB	Floppy or tape	H-min. $150/yr. S-min. $360/yr.
QS/1	QS/1 Data Systems P.O. Box 6052 Spartanburg, S.C. 29304	$9,950*	$30	SDP, Medi-Span	IBM Series I	20MB	256KB	Diskette, N/A	H-$56/mo. S-$54.17/mo.
RenLar System	RenLar Systems Inc. 2640 Palumbo Drive Lexington, Ky. 40509	$14,995*	N/A	N/A	Digital Equipment Corp. Micro-11	31MB	512KB	Floppy, 400KB	H-$150/mo. S-incl. in hardware maint.
Rx-1	Rx-1 Inc. 7123 I-30, Suite 2 Little Rock, Ark. 72209	$9,600*	$65	N/A	IBM PC	40MB	256KB	Floppy, 360KB	H-$60/mo. S-$65/mo.
RX-IV	RX-IV Pharmacy Computer 2405 NW 39th Expressway, Suite 103 Oklahoma City, Okla. 73112	$10,868*	$60	Medi-Span	IBM PC/XT	44MB	256KB	Floppy, 360KB	H-$60/mo. S-$50/mo.
Script System	Script Systems Inc. 385 Prospect Ave. Hackensack, N.J. 07601	$8,995*	$35	N/A	Data General, IBM PC/AT	15MB	256KB	Tape, N/A	H-$79/mo. S-$60/mo.
Signature	Signature Software Systems Inc. 6125 Yarbrough Lane Lakeland, Fla. 33803	$2,500-S	$30	Medi-Span	IBM PC/XT, AT	10MB	64KB CP/M, 256KB MSDOS	Floppy, tape or hard drive, N/A	H-none S-$45/mo.
Synercom Health-care systems	Synercom Computers 101 Westpark Drive Brentwood, Tenn. 37027	$8,995*	N/A	N/A	IBM PC/XT	20MB	256KB	Floppy, 360KB	H-$87/mo. S-$83/mo.
3PM	3PM/McKesson 30881 Schoolcraft Road Livonia, Mich. 48150	$12,900*	$40	Medi-Span	Digital, IBM AT	30MB	512KB	Streamer tape, 60MB	H-$100/mo. S-$65/mo.

Guide to Pharmacy Computer Systems

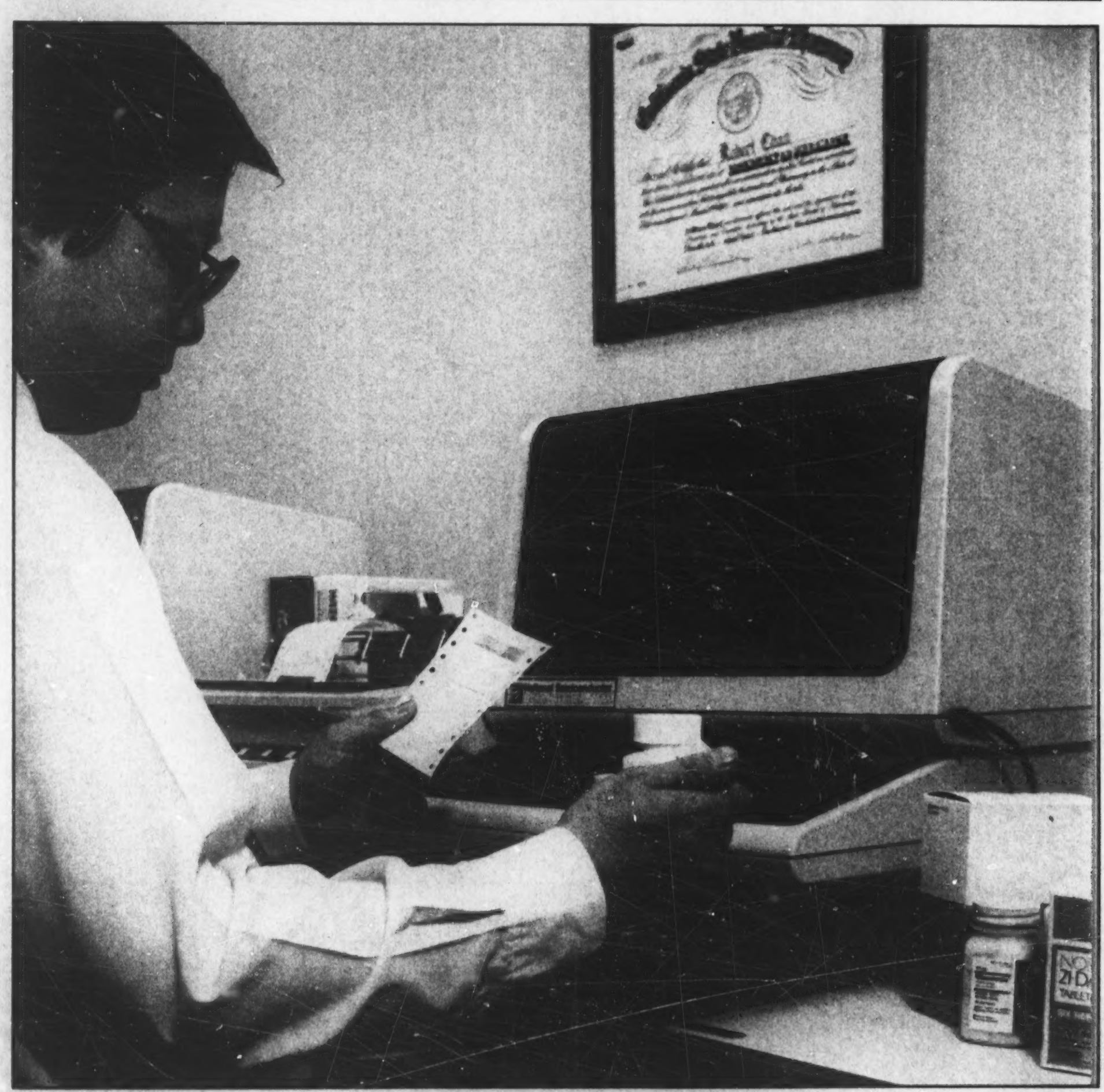
Name of system	Name of company	Entry level price	Price updates: monthly charge	Price updates: source	Hardware (cpu only)	Entry level: storage	Entry level: Main memory	Entry level: Backup: type, capacity	Maintenance charges
A.M.S./Best	Applied Micro Systems Ltd. 3392 Progress Drive, Suite D Bensalem, Pa. 19020	$13,495*	N/A	N/A	Alpha Micro AM1000	20MB	512KB	VCR tape, 100MB	H-$135/mo. S-incl. in hardware maint.
CompuPhase 3	Bergen Brunswig Drug Co. 4000 Metropolitan Drive Orange, Calif. 92668	$11,995*	$50	First Data Bank	IBM PC/AT	20MB	256KB	Floppy, 1.2MB	H-$46/mo. S-$120/mo.
Bluff Creek Pharmacy System	Bluff Creek Systems Inc. P.O. Box 1707 Greenville, Tex. 75401	$11,623*	$50	Medi-Span	Texas Instruments Professional	10MB	256KB	Floppy, 360KB	H-$46/mo. S-$50/mo.
SYSTEM/Quick-script	BSI Business Systems Inc. Fellowship Business Center #C301 520 Fellowship Road Mt. Laurel, N.J. 08054	$9,995*	$35	Medi-Span	Sperry IT	40MB	512KB	Floppy, 1.2MB	H-$100/mo. S-$35/mo.
Qwik-Script	CISCO Computer Systems Co. 1117 Loop 304 East Crockett, Tex. 75835	$2,995-S	$30	Medi-Span	N/A	10MB	256KB	Tape or Hard disk, N/A	H-$75/mo. S-$47.50/ mo.
RxEXPRESS	ComCoTec Inc. 361 Frontage Road Burr Ridge, Ill. 60521	$8,686*	$30	Medi-Span	IBM PC/XT	30MB	512KB	N/A	H-$100/mo. S-$50/mo.
CompuScription Inc.	CompuScription Inc. 1123 N. Dunton Ave. Arlington Heights, Ill. 60004	$5,800*	$20	Medi-Span	IBM PC compatible	20MB	256KB	Tape, 10MB	H-$55/mo. S-$20/mo.
Compute-Rx Pharmacy Management System	Compute-Rx 8235 Hermitage Road Richmond, Va. 23228	$15,950	$53	N/A	IBM PC/AT	20MB	512KB	Tape, 60MB	H-$110/mo. S-$53/mo.
Rx-80 System	The Condor Corp. 1970 Chandalar Office Park P.O. Box 189 Pelham, Ala. 35124	$7,500-S	$50	First Data Bank	IBM, NCR, Sperry, AT&T	10MB	256KB	Varies, diskette, tape	H-varies S-$100/mo.
DAGAR/Software	DAGAR/Software Development 649 Amity Road Bethany, Conn. 06525	$6,995*	N/A	N/A	IBM-XT type	20MB	256KB	Streamer or floppy	H-$50-75/ mo. S-$75/mo.
PharmEase	Data-Rite Industries E. 5505 Broadway Spokane, Wash. 99212	$9,995*	$55	N/A	AT&T 6300	20MB	640KB	Tape, 10MB	H-$85/mo. S-$55/mo.
SpeedScript	Digital Simplistics Inc. 3887 West 95th St. Overland Park, Kan. 66206	$13,995*	$50	N/A	Digital Equipment Corp. LSI 11/23	20MB	256KB	Tape, 40MB	H-$200/mo. S-$50/mo.

Guide to Pharmacy Computer Systems

Name of system	Name of company	Entry level price	Price updates: monthly charge	Price updates: source	Hardware (cpu only)	Entry level: storage	Entry level: Main memory	Entry level: Backup: type, capacity	Maintenance charges
Rx30	Transaction Data Systems 7061 Grand National Drive Orlando, Fla. 32819	$8,700-H $1,250-S	$25	Medi-Span	IBM PC, TI PC, AT&T PC	20MB	384KB	Cartridge tape, 60MB	H-N/A S-$650/yr.
Triad	Triad Pharmacy Systems 1 Woodlawn Green, Suite 124 Charlotte, N.C. 28210	$9,995*	N/A	Medi-Span	Texas Instruments Professional	10MB	256KB	Floppy, 360MB	H-$81/mo. S-$100/mo.

H-Hardware S-Software *-Hardware and software combined

Source: *Drug Store News* Research



Guide to Pharmacy Computer Software

Company name	Label/Receipt	Patient Profile	Interactions Drug/Allergy	Drug/Drug	Drug/Illness	Third Party Processing	Electronic Transmission	Nursing Home	Accounts Receivable	Payroll	Perpetual Inventory	Durable Medical Equipment	Controlled Substance Report	General Ledger	Accounts Payable
Applied Micro Systems Inc.	B	B	B	B	X	B	B	B	B	X	X	X	B	X	X
Bergen Brunswig Drug	B	B	B	B	X	B	B	X	X	X	X	X	B	X	X
Bluff Creek Systems	B	B	B	B	X	B	X	X	B	X	X	X	B	X	X
BSI Business Systems	B	B	B	B	X	B	X	X	X	X	X	X	B	X	X
CISCO Computer Systems	B	B	X	X	N/A	B	B	N/A	B	X	B	N/A	B	X	X
ComCoTec Inc	B	B	B	B	B	B	B	X	X	X	B	X	B	X	X
CompuScription Inc	B	B	X	X	N/A	B	X	B	B	X	X	X	B	X	X
Compute-Rx	B	B	B	B	N/A	B	B	X	B	X	X	X	B	X	X
The Condor Corp	B	B	B	B	B	B	B	X	X	X	B	X	B	X	X
DAGAR/Software Development	B	B	B	X	N/A	B	B	X	X	X	B	X	B	X	X
Data-Rite Industries	B	B	B	B	X	B	B	B	B	N/A	B	X	B	X	X
Digital Simplistics	B	B	B	X	X	B	B	B	B	X	B	X	B	X	X
Etreby Computer Company	B	B	B	B	B	B	B	X	B	X	B	X	B	X	X
FoxMeyer-TBL Co	B	B	B	B	N/A	B	X	X	X	X	B	X	B	X	X
Freedom Data Systems	B	B	B	B	X	B	B	X	X	X	B	X	B	X	X
General Computer Corp	B	B	B	B	B	B	B	X	B	X	X	X	B	X	X
Goold Health Systems	B	B	B	B	X	B	X	X	B	X	X	X	B	X	X
Health Business Systems	B	B	B	B	N/A	B	N/A	X	X	X	B	X	B	X	X
Honeywell	B	B	B	B	N/A	B	B	X	X	X	X	N/A	B	X	X
Interactive Systems	B	B	B	B	N/A	B	B	X	B	X	B	X	B	X	X
Mavis Computer	B	B	B	B	N/A	B	X	X	X	X	X	X	B	X	X
National Data Corp	B	B	X	X	N/A	B	X	X	X	X	X	X	B	X	X
NCR Corporation	B	B	X	X	X	B	X	X	B	X	X	N/A	B	X	X
Norand Corporation	B	B	B	B	N/A	B	B	X	X	X	B	N/A	B	X	X
pcl Professional Systems	B	B	N/A	B	N/A	B	B	X	X	N/A	B	N/A	B	X	X
PDX Inc	B	B	B	B	N/A	B	B	X	X	N/A	B	N/A	B	X	X
PRX Pharmacy Systems	B	B	X	X	X	B	B	X	B	X	B	X	B	X	X
PHARM-HAND/Specomp Inc.	B	B	N/A	N/A	N/A	B	N/A	N/A	B	X	X	N/A	N/A	X	X
QS/1 Data Systems	B	B	B	B	N/A	B	X	X	X	X	X	X	X	X	X
RenLar Systems	B	B	N/A	B	N/A	B	B	X	X	X	B	X	B	X	X
Rx-1 Inc.	B	B	B	B	N/A	B	B	B	B	N/A	B	N/A	B	N/A	N/A
RX-IV Pharmacy Computer	B	B	B	B	N/A	B	N/A	B	B	X	B	X	B	X	X
Script Systems Inc.	B	B	B	B	B	B	B	X	B	X	X	X	B	X	X
Signature Software-Rx system	B	B	B	B	X	B	X	X	B	N/A	B	X	B	X	X
Synercom Computers	B	B	X	X	X	B	B	X	B	X	X	X	B	X	X
3PM/McKesson	B	B	B	B	B	B	X	X	X	X	B	X	B	X	X
Transaction Data Systems	B	B	B	X	N/A	B	B	X	X	X	B	N/A	B	X	X
Triad Pharmacy Systems	B	B	B	B	B	B	B	X	X	X	B	N/A	B	X	X

B = basic/entry Level X = extra/upgrade N/A = not available
Source: *Drug Store News research*

Sales History of Select Generic Drugs

(Off Patent 1981 through 1986)

Product	Generic Name	Company	Patent Expiration	1985 Est. Sales (Mil. $)	% Change vs. 1984
Polycillin	Ampicillin	Bristol	1981	27	(35)
Indocin	Indomethacin	MSD	1981	63	(31)
Ortho-Novum	Norethindrone	Ortho	1981	203	10
Geopen	Carbenicillin	Pfizer	1981	25	2
Norinyl	Norethindrone	Syntex	1981	46	10
Soma	Carisopradol	Wallace	1981	16	3
Minocin	Minocycline	Lederle	1982	62	5
Oncovin	Vincristine Sulfate	Lilly	1982	25	12
Darvocet N	Propoxyphene Nap.	Lilly	1982	134	8
Vibramycin	Doxycycline	Pfizer	1982	18	(32)
Norpace	Disopyramide	Searle	1982	38	(10)
Demulen	Ethynodiol	Searle	1982	44	5
Dyazide	Triamterene/Hydro.	SKF	1982	287	3
Tolinase	Tolazamide	Upjohn	1982	54	(39)
Atromid-S	Clofibate	Ayerst	1983	16	5
Anturane	Sulfinprazone	Ciba	1983	6	(25)
Procan SR	Procainamide	Parke Davis	1983	56	6
Mellaril	Thiordazine	Sandoz	1983	38	(26)
Valisone	Betamethasone	Schering	1983	22	(9)
Calan	Veraparmil	Searle	1983	50	55
Synalar	Fluocinolone	Syntex	1983	11	2
Depakene	Valproic Acid	Abbott	1984	20	(10)
Inderal	Propranolol	Ayerst	1984	309	6
Reglan	Metoclopramide	A. H. Robins	1984	84	28
Symmetrel	Amantadine	Dupont	1984	18	15
Ativan	Lorazepam	Lederle	1984	136	28
Meclomen	Meclofenamate	Lilly	1984	36	20
Dymelor	Acetohexamide	Lilly	1984	9	(16)
Rifadin	Rifampin	Merrell Dow	1984	5	8
Aldomet	Methyldopa	MSD	1984	154	(16)
Diabinese	Chlorpropamide	Pfizer	1984	95	(40)
Navane	Thiothixene	Pfizer	1984	38	9
Dalmane	Flurazepam	Roche	1984	52	(3)
Restoril	Temazepam	Sandoz	1984	38	30
Diprosone	Betamethasone Dipro.	Schering	1984	17	(1)
Nasalide	Flunisolide	Syntex	1984	20	20
Serax	Oxazepam	Wyeth	1984	29	16
Rufen	Ibuprofen	Boots	1985	45	9
Desyrel	Trazodone	Bristol	1985	52	40
Ludiomil	Maprotiline	Ciba	1985	22	(1)
Aldoril	Methyldopa/Hydrochlor.	MSD	1985	78	(3)
Decadron	Dexamethasone	MSD	1985	23	(5)
Triavil	Perphenazine/Amitriptyline	MSD	1985	70	10
Valium	Diazepam	Roche	1985	324	13
Etrafon	Perphenazine/Amitriptyline	Schering	1985	11	1
Motrin	Ibuprofen	Upjohn	1985	118	32
Loniten	Minoxidil	Upjohn	1985	36	170
Alupent	Metaproterenol	Boehringer Ingelheim	1986	57	25
Catapres	Cephapirin Sodium	Boehringer Ingelheim	1986	95	21
Carafate	Sucralfate	Marion	1986	42	75
Haldol	Haloperidol	McNeil	1986	96	15
Norpramin	Desipramine	Merrell Dow	1986	28	25
Elavil	Amitriptyline	MSD	1986	35	3
Indocin SA	Indomethacin	MSD	1986	47	14
Flexeril	Cyclobenzaprine	MSD	1986	55	20
Centrax	Prazepam	Parke Davis	1986	23	9
Sinequan	Doxepin	Pfizer	1986	60	0
Visken	Pindolol	Sandoz	1986	20	48
Velosef	Cephradine	Squibb	1986	31	1

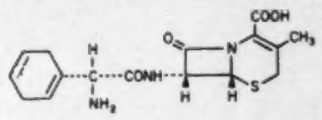
Source: David Saks of Morgan, Olmstead, Kennedy & Gardner

Biocraft's CEPHRADINE

BRIEF SUMMARY

DESCRIPTION: Cephradine is a semisynthetic cephalosporin antibiotic; oral dosage forms include capsules containing 250 mg and 500 mg cephradine, and cephradine for oral suspension containing, after constitution, 125 mg and 250 mg per 5 ml dose.

Cephradine is designated chemically as (6R, 7R)-7-[(R)-2-amino-2-(1,4-cyclohexadien-1-yl) acetamido]-3-methyl-8-oxo-5-thia-1-azabicyclo [4.2.0] oct-2-ene-2-carboxylic acid. Structural formula:



[MW 349.40]

Inactive Ingredients: CAPSULES: Magnesium Stearate and Synthetic Silica.

Capsule Shell and Print Constituents: Black Iron Oxide, FD&C Blue #1, FD&C Blue #2, FD&C Red #40, FD&C Yellow #6, Gelatin, Pharmaceutical Shellac, Propylene Glycol, Silicon Dioxide, Sodium Lauryl Sulfate, Titanium Dioxide and Yellow Iron Oxide. In addition, the 250 mg capsule shell contains: D&C Red #28 and Red Iron Oxide A.

SUSPENSION: Carboxymethylcellulose Sodium, Cherry Flavoring, Citric Acid, FD&C Red #40, Microcrystalline Cellulose, Poloxamer 331, Sodium Benzoate, Sodium Saccharin, Sugar, Synthetic Silica, Xanthan Gum.

INDICATIONS AND USAGE: Cephradine Capsules and Cephradine For Oral Suspension are indicated in the treatment of the following infections when caused by susceptible strains of the designated microorganisms:

RESPIRATORY TRACT INFECTIONS (e.g., tonsilitis, pharyngitis, and lobar pneumonia) caused by group A beta-hemolytic streptococci and *S. pneumoniae* (formerly *D. pneumoniae*).

(Penicillin is the usual drug of choice in the treatment and prevention of streptococcal infections, including the prophylaxis of rheumatic fever. Cephradine is generally effective in the eradication of streptococci from the nasopharynx; substantial data establishing the efficacy of cephradine in the subsequent prevention of rheumatic fever are not available at present.)

OTITIS MEDIA caused by group A beta-hemolytic streptococci, *S. pneumoniae* (formerly *D. pneumoniae*), *H. influenzae*, and staphylococci. SKIN AND SKIN STRUCTURES INFECTIONS caused by staphylococci (penicillin-susceptible and penicillin-resistant) and beta-hemolytic streptococci.

URINARY TRACT INFECTIONS, including prostatitis, caused by *E. coli*, *P. mirabilis*, *Klebsiella* species, and enterococci (*S. faecalis*). The high concentrations of cephradine achievable in the urinary tract will be effective against many strains of enterococci for which disc susceptibility studies indicate relative resistance. It is to be noted that among beta-lactam antibiotics, ampicillin is the drug of choice for enterococcal urinary tract (*S. faecalis*) infection.

Note — Culture and susceptibility tests should be initiated prior to and during therapy.

Following clinical improvement achieved with parenteral therapy, oral cephradine may be utilized for continuation of treatment of persistent or severe conditions where prolonged therapy is indicated.

CONTRAINDICATIONS: Cephradine is contraindicated in patients with known hypersensitivity to the cephalosporin group of antibiotics.

WARNINGS: *In penicillin-sensitive patients, cephalosporin derivatives should be used with great caution. There is clinical and laboratory evidence of partial cross-allergenicity of the penicillins and the cephalosporins, and there are instances of patients who have had reactions to both drug classes (including anaphylaxis after parenteral use).*

Any patient who has demonstrated some form of allergy, particularly to drugs, should receive antibiotics, including cephradine, cautiously and then only when absolutely necessary.

Pseudomembranous colitis has been reported with the use of cephalosporins (and other broad spectrum antibiotics); therefore, it is important to consider its diagnosis in patients who develop diarrhea in association with antibiotic use. Treatment with broad spectrum antibiotics alters normal flora of the colon and may permit overgrowth of clostridia. Studies indicate a toxin produced by *Clostridium difficile* is one primary cause of antibiotic-associated colitis. Cholestyramine and colestipol resins have been shown to bind the toxin *in vitro*. Mild cases of colitis may respond to drug discontinuance alone. Moderate to severe cases should be managed with fluid, electrolyte and protein supplementation as indicated. When the colitis is not relieved by drug discontinuance or when it is severe, oral vancomycin is the treatment of choice for antibiotic-associated pseudomembranous colitis produced by *C. difficile*. Other causes of colitis should also be considered.

PRECAUTIONS: General: Patients should be followed carefully so that any side effects or unusual manifestations of drug idiosyncrasy may be detected. If a hypersensitivity reaction occurs, the drug should be discontinued and the patient treated with the usual agents, e.g., pressor amines, antihistamines, or corticosteroids.

Administer cephradine with caution in the presence of markedly impaired renal function. In patients with known or suspected renal impairment, careful clinical observation and appropriate laboratory studies should be made prior to and during therapy as cephradine accumulates in the serum and tissues. See DOSAGE AND ADMINISTRATION section for information on treatment of patients with impaired renal function.

Cephradine should be prescribed with caution in individuals with a history of gastrointestinal disease, particularly colitis.

Prolonged use of antibiotics may promote the overgrowth of nonsusceptible organisms. Should superinfection occur during therapy, appropriate measures should be taken.

Indicated surgical procedures should be performed in conjunction with antibiotic therapy.

Information for Patients: Caution diabetic patients that false results may occur with urine glucose tests (see PRECAUTIONS, Drug/Laboratory Test Interactions).

Advise the patient to comply with the full course of therapy even if he begins to feel better and to take a missed dose as soon as possible. Inform the patient that this medication may be taken with food or milk since gastrointestinal upset may be a factor in compliance with the dosage regimen. The patient should report current use of any medicines and should be cautioned not to take other medications unless the physician knows and approves of their use (see PRECAUTIONS, Drug Interactions).

Laboratory Tests: In patients with known or suspected renal impairment, it is advisable to monitor renal function (see DOSAGE AND ADMINISTRATION).

Drug Interactions: When administered concurrently, the following drugs may interact with cephalosporins.

Other antibacterial agents — Bacteriostats may interfere with the bactericidal action of cephalosporins in acute infection; other agents, e.g., aminoglycosides, colistin, polymyxins, vancomycin, may increase the possibility of nephrotoxicity.

Diuretics (potent "loop diuretics," e.g., furosemide and ethacrynic acid)-Enhanced possibility for renal toxicity.

Probenecid — Increased and prolonged blood levels of cephalosporins, resulting in increased risk of nephrotoxicity.

Drug/Laboratory Test Interactions: After treatment with cephradine, a false-positive reaction for glucose in the urine may occur with Benedict's solution, Fehling's Solution, or with Clinitest® tablets, but not with enzyme-based tests such as Clinistix® and Test-tape®.

False-positive Coombs test results may occur in newborns whose mothers received a cephalosporin prior to delivery.

Cephalosporins have been reported to cause false-positive reactions in tests for urinary proteins which use sulfosalicylic acid, false elevations of urinary 17-ketosteroid values, and prolonged prothrombin times.

Carcinogenesis, Mutagenesis: Long-term studies in animals have not been performed to evaluate carcinogenic potential or mutagenesis.

Pregnancy Category B: Reproduction studies have been performed in mice and rats at doses up to four times the maximum indicated human dose and have revealed no evidence of impaired fertility or harm to the fetus due to cephradine. There are, however, no adequate and well-controlled studies in pregnant women. Because animal reproduction studies are not always predictive of human response, this drug should be used during pregnancy only if clearly needed.

Nursing Mothers: Since cephradine is excreted in breast milk during lactation, caution should be exercised when cephradine is administered to a nursing woman.

Pediatric Use: See DOSAGE AND ADMINISTRATION. Adequate information is unavailable on the efficacy of b.i.d. regimens in children under nine months of age.

ADVERSE REACTIONS: As with other cephalosporins, untoward reactions are limited essentially to gastrointestinal disturbances and, on occasion, to hypersensitivity phenomena. The latter are more likely to occur in individuals who have previously demonstrated hypersensitivity and those with a history of allergy, asthma, hay fever, or urticaria.

The following adverse reactions have been reported following the use of cephradine:

Gastrointestinal: Symptoms of pseudomembranous colitis can appear during antibiotic treatment. Nausea and vomiting have been reported rarely.

Skin and Hypersensitivity Reactions: Mild urticaria or skin rash, pruritus, and joint pains were reported by very few patients.

Hematologic: Mild, transient eosinophilia, leukopenia, and neutropenia have been reported.

Liver: Transient mild rise of SGOT, SGPT, and total bilirubin have been observed with no evidence of hepatocellular damage.

Renal: Transitory rises in BUN have been observed in some patients treated with cephalosporins; their frequency increases in patients over 50 years old. In adults for whom serum creatinine determinations were performed, the rise in BUN was not accompanied by a rise in serum creatinine.

Other adverse reactions have included dizziness and tightness in the chest and candidal vaginitis.

HOW SUPPLIED: Cephradine Capsules USP

250 mg: bottles of 24 (NDC 0332-3153-08), 100 (NDC 0332-3153-09) and 500 (NDC 0332-3153-13).
Capsule identification number and color: BIOCRAFT 112, light green opaque cap and pink opaque body.

500 mg: bottles of 24 (NDC 0332-3155-08), 100 (NDC 0332-3155-09) and 500 (NDC 0332-3155-13).
Capsule identification number and color: BIOCRAFT 113, light green opaque cap and body.

Cephradine For Oral Suspension USP
(a pleasant, cherry flavored formula)

125 mg/5 ml: 100 ml size bottle (NDC 0332-4165-32) and 200 ml (NDC 0332-4165-36).

250 mg/5 ml: 100 ml size bottle (NDC 0332-4167-32) and 200 ml (NDC 0332-4167-36).

STORAGE: Cephradine Capsules USP — Keep tightly closed. Do not store above 86°F.

Cephradine for Oral Suspension USP — Prior to constitution store at room temperature; avoid excessive heat. After constitution, when stored at room temperature, discard unused portion after seven days; when stored in refrigerator, discard unused portion after 14 days. Keep tightly closed.

Manufactured by:
BIOCRAFT LABORATORIES, INC.
Elmwood Park, New Jersey 07407

June 1986

biocraft
LABORATORIES, INC.

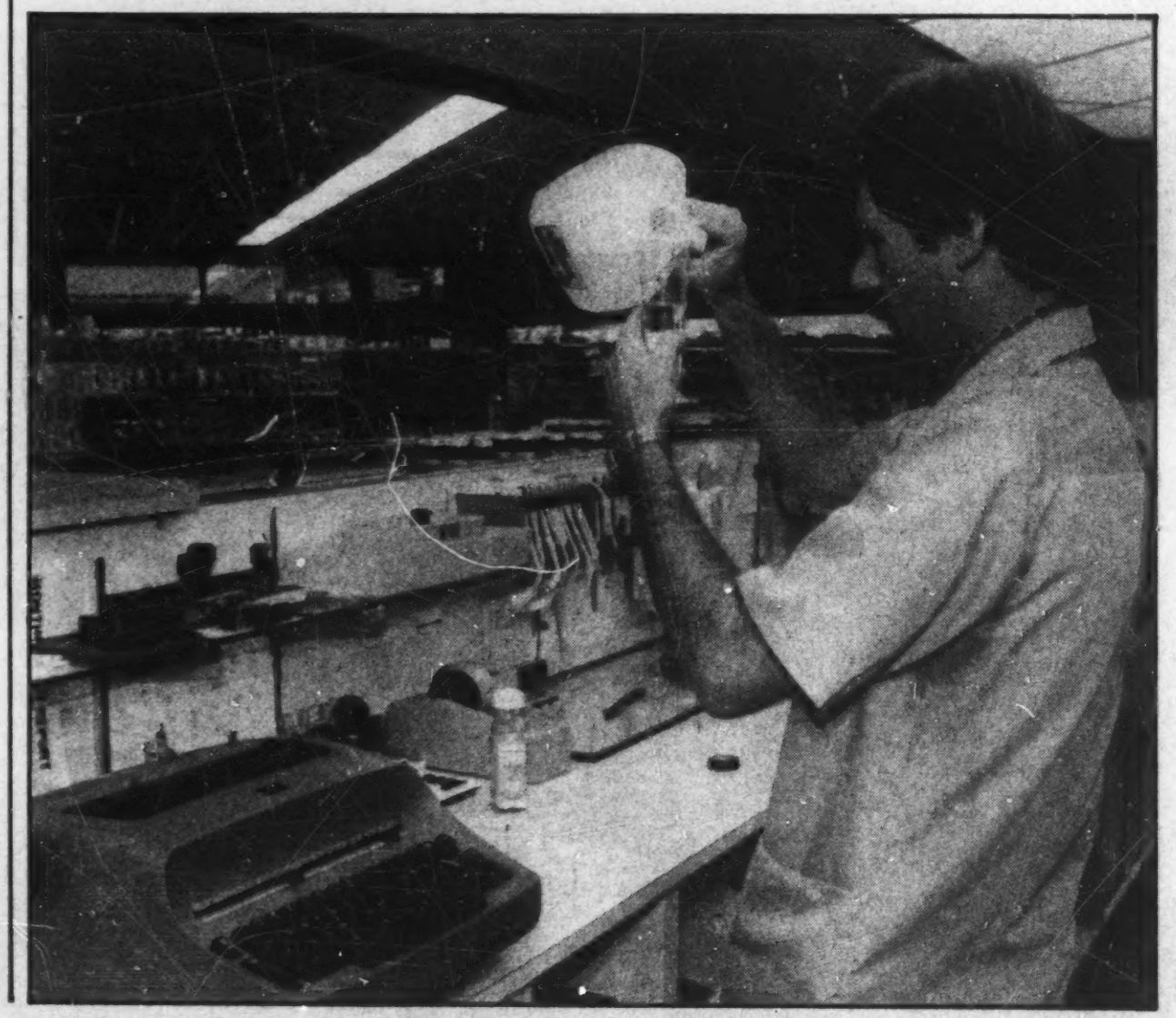
Generic

Fifteen Most Substituted Pharmaceutical Categories

(Ranked by most frequent substitution)

Rank	Product Category
1	Analgesics, narcotic
2	Minor tranquilizers
3	Trimethoprim
4	Antiarthritics, systemic
5	Diuretics
6	Analgesics, non-narcotic
7	Coronary, vasodilators
8	Antispasmodics/anticholinergics
9	Tricyclic psychostimulants
10	Tetracyclines
11	Muscle relaxants
12	Trichomonacides
13	Corticoids/anti-infectives
14	Oral cold preparations
15	Antihistamines

Source: Market Measures



Sales History of Drugs Soon to Come Off Patent

(Patent Expiration: 1987-1991)

Product	Generic Name	Company	Patent Expiration	1985 Estimated Sales	% Change vs. 1984
Tranxene	Chlorazepate Dipotassium	Abbott	1987	98	19
Duricef	Cefadroxil	Bristol	1987	53	38
Ser-ap-es	Reserpine/Hydralazine	Ciba	1987	17	(15)
Keflex	Cephalexin	Lilly	1987	260	11
Kefzol	Cefazolin	Lilly	1987	74	(6)
Keflin	Cephalothin	Lilly	1987	13	(48)
Bactrim	Sulfamethoxazole/Tria.	Roche	1987	31	(6)
Ancef	Cefazolin	SKF	1987	105	20
Cleocin	Clindamycin	Upjohn	1987	11	5
Omnipen	Ampicillin	Wyeth	1987	85	(10)
Adriamycin	Doxorubicin	Adria	1988	76	2.0
Cefadyl	Cephapirin Sodium	Bristol	1988	17	(29)
Amikin	Amikacin Sulfate	Bristol	1988	33	10
Zyloprim	Allopurinol	BW	1988	35	0
Nalfon	Fenoprofen	Lilly	1988	51	7
Lorelco	Probucol	Merrell Dow	1988	14	40
Negram	Naldixic Acid	Syntex	1988	6	7
Lidex	Fluocinonide	Syntex	1988	33	15
Amoxil	Amoxicillin	Beecham	1989	55	7
Ventolin	Albuterol	Glaxo	1989	51	26
Ascendin	Amoxapine	Lederle	1989	22	15
Mandol	Cefamandole	Lilly	1989	97	(24)
Nebcin	Tobramycin	Lilly	1989	80	(7)
Clinoril	Sulindac	MSD	1989	148	5
Dolobid	Diflunisal	MSD	1989	50	24
Blocadren	Timolol	MSD	1989	17	15
Lopid	Gemfibrozil	Parke Davis	1989	27	60
Minipress	Prazosin	Pfizer	1989	114	5
Procardia	Nifedipine	Pfizer	1989	198	28
Geocillin	Carbenicillin	Pfizer	1989	20	14
Lotrimin	Clotrimazole	Schering	1989	23	6
Proventil	Albuterol	Schering	1989	59	30
Wytensin	Quanabenz Acetate	Wyeth	1989	19	28
Blenoxane	Bleomycin	Bristol	1990	15	N/A
Mutamycin	Mitomycin	Bristol	1990	26	N/A
Imodium	loperamide HCl	Janssen	1990	15	N/A
Tolectin	Tolmetin sodium	McNeil	1990	52	N/A
Moduretic	Amiloride	MSD	1990	52	18
Parlodel	Bromocriptine mesylate	Sandoz	1990	40	N/A
Sinemet	Carbidopa	MSD	1991	76	18

Source: David Saks of Morgan, Olmstead, Kennedy & Gardner

Potential Poisoning Agents

Poisoning agent	Likely medical consequence* major (%)	moderate (%)	minor (%)	none (%)	% of cases treated at a health care facility
Pharmaceuticals					
Acetaminophen					
adult formula	1.0	4.0	15	43	61
pediatric formula	0.0	0.1	3	66	13
unknown formula	0.7	3.0	10	47	33
Aspirin					
adult formula	1.0	6.0	22	35	59
pediatric formula	0.1	0.4	8	63	18
unknown formula	1.1	4.0	20	39	44
All analgesics	0.8	3.0	15	48	39
Anesthetics	0.5	2.0	15	53	16
Anticholinergics	1.3	6.0	25	40	51
Anticonvulsants	3.0	10.0	26	34	60
Antidepressants	8.0	15.0	28	19	79
Antihistamines	1.0	5.0	26	38	49
Antimicrobials	0.3	1.0	12	48	19
Antineoplastics	0.0	3.0	18	47	40
Asthma therapies	2.0	9.0	27	36	55
Cardiovascular drugs	2.0	5.0	16	51	49
Cough & cold preps	0.2	2.0	23	51	25
Diagnostics agents	1.0	1.0	16	49	26
Diuretics	1.0	3.0	17	50	39
Electrolytes/minerals	0.2	1.0	12	52	13
Eye/ear/nose/throat preps	0.2	1.0	16	57	22
Gastrointestinal preps	0.2	1.0	15	50	14
Hormones	0.2	1.0	8	54	17
Misc. drugs	0.3	4.0	24	37	33
Muscle relaxants	2.0	10.0	30	24	69
Sedative/hypnotics/ antipsychotics	3.0	10.0	33	20	71
Stimulants/street drugs	2.0	9.0	31	24	60
Topicals	0.1	1.0	14	55	12
Vitamins	0.2	1.0	5	9	12
Nonpharmaceuticals					
Alcohol	1.0	5.0	24	40	35
Chemicals	0.3	3.0	26	40	23
Cleaning substances	0.2	3.0	30	41	19
Cosmetics	0.0	1.0	15	55	7
Hydrocarbons	0.2	2.0	31	43	23
Insecticides/pesticides	0.4	3.0	23	43	24
Plants	0.0	1.0	9	55	6
Tobacco products	0.1	2.0	20	52	17

*Medical outcome data were also collected in categories labeled "unknown, nontoxic," "unknown, potentially toxic," and "unrelated effect." As a result, the numbers here do not represent 100% of the total poison exposure experience.

Source: 1985 Annual Report of the American Association of Poison Control Centers.

Dear Pharmacist:

As a service to your customers, you may wish to zerox this chart to distribute to patients with small children.

Safeguarding Your Home From Poisonings

1. Poison Control Center Number _____ 800 _____ (Fill in local number).
2. Keep one 1-oz. bottle of syrup of ipecac per child.
3. Put locks on all cabinet doors.
4. Keep *all* medications, especially vitamins and flavored analgesics, out of the reach AND sight of children.
5. Keep the safety caps on all medications.
6. Keep all cleaning fluids and detergents in locked cabinets.
7. Know the names of all household plants.
8. Always call the POISON CONTROL CENTER if you suspect a poisoning has occurred.
9. If, despite your efforts, some type of poisoning does occur and you must go to a hospital, always bring a sample or the original bottle from the ingested substance.

Courtesy of: Stamp in your name and the name of your store

C5150-2
5/7/87

Pharmacy:
Upjohn defends Rogaine market—p. 37

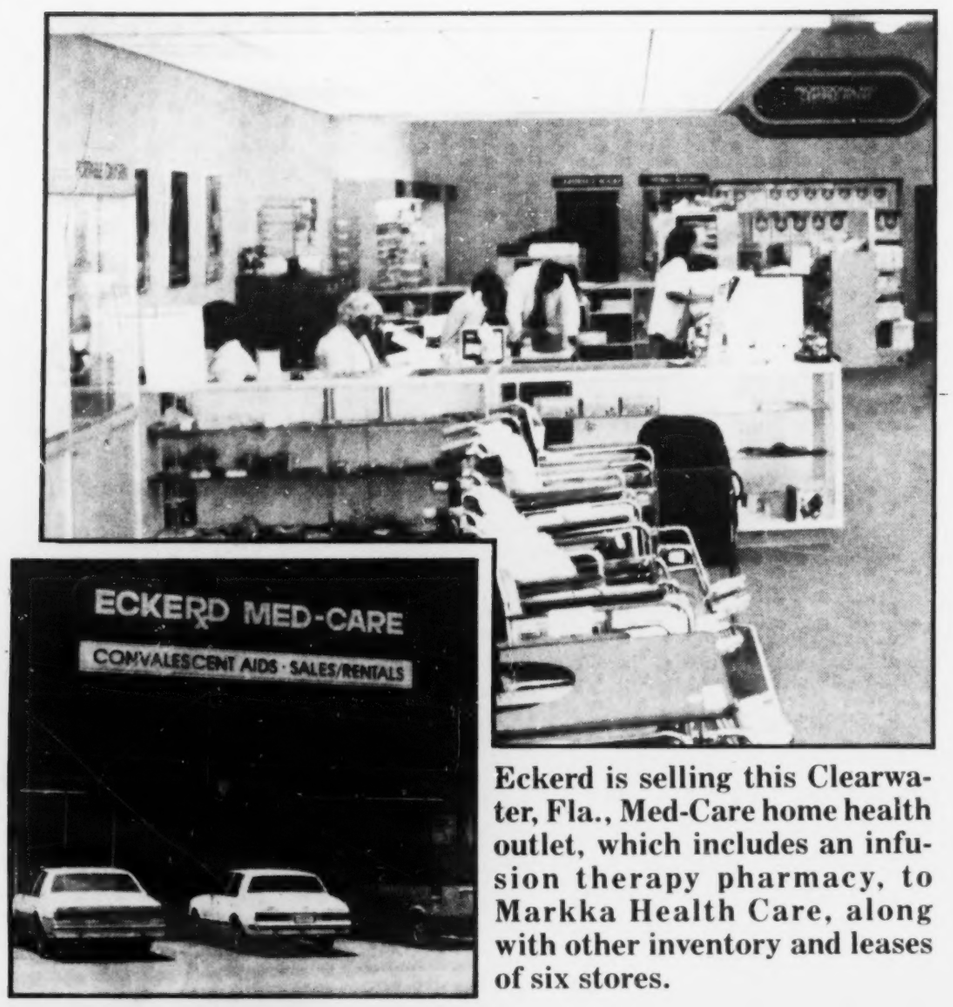
Focus
NACDS in Florida

Trends.
...ok ...egory—p. 13

MD 20814
8001 WEST WEST HWY STE 166
SVC INFO NATIONAL CONGRESSIONAL
4520 EAST WEST
BESTHESDA
00269340
KEVIN KENDRICK
08

DRUG STORE NEWS

Vol. 9/No. 10 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. May 11, 1987



Eckerd is selling this Clearwater, Fla., Med-Care home health outlet, which includes an infusion therapy pharmacy, to Markka Health Care, along with other inventory and leases of six stores.

Eckerd sheds Med-Care in pursuit of ROI goals

CLEARWATER, Fla. — Eckerd Corp. has sold its six Med-Care home health care stores, dropping a high-inventory, slow-paying business that hasn't supported the chain's cash flow goals.

The pullout is part of a recent round of asset redeployment, as Eckerd emphasizes businesses and markets that can best support its leveraged buyout, according to spokesman Michael Zagorac, vp-public affairs.

In an unrelated deal, estimated at $6 million, Eckerd sold 15 drug stores in mid-sized Alabama towns to Big B. It has also bought seven drug stores in Birmingham, Ala., from Revco, which is pulling out of that city.

Eckerd also sold five drug stores to Revco in the Brownsville area of Texas.

Eckerd last month also said it will buy 28 Safeway pharmacies from stores in the food chain's 141-unit north Texas division that are up for sale.

The transactions follow the February sale of 11 units in Tulsa, Okla., to May's Drugs.

Eying growth potential

"We're looking at stores in terms of return on investment and their potential. You aren't going to see us lop off a major division," said Zagorac.

He said the 6,000-sq.-ft. Med-Care stores in Tampa, Clearwater and St. Petersburg "are very good stores, but we are looking at growth potential."

"We think we can do better investing in Express Photo and Vision Works," said Zagorac, referring to its drug store photo departments and its full-service eye care stores. Eckerd will expand Express Photo departments from 26 to 45 in the year. Drug store growth will continue at last year's pace of about 50 units, as Eckerd focuses on the "cash-and-carry businesses" that help it meet its dept payments.

The full-line home health care units are being sold to Markka Health Care Centers

See **Eckerd,** *page 53*

Buyout plan could blunt SGC price edge

WOODBRIDGE, N.J. — The planned buyout of Supermarkets General Corp. organized by Merrill Lynch may cost more than the $1.8 billion that has been offered.

An SGC management group would take on debt so large it would threaten the company's capital program for store growth and maintenance and its Pathmark division's role as a supermarket price leader, some analysts believe.

"I could see [SGC's] market share deteriorating pretty sharply as a result" of depleted capital spending, and a loss of a pricing edge at Pathmark, said Wood Gundy analyst Edward Comeau.

'Lean chain'

"They are a very lean, competitive chain that has competed for years on a price basis. They're going to have to adapt their pricing structure," which has worked with a 2.7% operating margin, compared to the industry average of 2%, Comeau said.

"Something's got to give," he added.

If it does, SGC would emerge bloodied, if unbowed, through its buyout plan with Merrill Lynch Capital Partners, which could thwart takeover intensions of the Dart Group.

An early casualty was SGC chairman Leonard Lieber-

See **SGC,** *page 53*

House prepares bill regulating takeovers

WASHINGTON — The House Energy and Commerce Committee is preparing legislation that could radically change the way the takeover game is played today.

The new bill is intended to "create a level playing field" by curbing strategies and advantages now used by both raiders and the defenders of target companies, Rep. John

See **Bill,** *page 53*

Sherwin-Williams' Breen reaffirms goal to unload 'disappointing' drug business

'When you're dealing with an LBO situation, there's no real way of telling how long it might take. Look how long it took the Revco people.'

—John Breen
chairman, Sherwin-Williams

CLEVELAND — Sherwin-Williams chairman John Breen reaffirmed at the company's annual meeting his desire to move away from drug store retailing as soon as the sale of the remaining 358 Gray and Drug Fair stores can be arranged.

Breen noted after the meeting that "as far as we know," former chain president Carl Bellini is still on course in his efforts to buy the stores. Breen admitted, however, that other parties with an interest in Gray had emerged in recent weeks.

At the lightly attended meeting here April 22, Breen told shareholders the paint manufacturer and retailer was "very disappointed in the (Gray) division" and is negotiating to sell the chain's remaining stores in Ohio and the mid-Atlantic region as soon as possible.

"While we never lost money in this division and do not anticipate losing money this year

See **Sherwin-Williams,** *p. 53*

Dart Drug Stores going public

LANDOVER, Md. — Dart Drug Stores is going public to relieve interest expenses incurred when it went private two years ago.

The 81-store chain will use an offer of new convertible debentures combined with common stock to restructure debt that it had been hard pressed to pay.

The company said it will exchange $500 of new convertible debentures and 35 common shares for each $1,000 of its $160 million debenture offering, which pays 12.7%. Dart last year had sold the 12.7% debentures to retire its original LBO debt load.

The chain will also offer new debentures and stock to replace $25 million in notes held by Equitable Life Assurance Society. The company said management and employees will still own about half of Dart, which had $262 million in sales in fiscal 1986, ended July 31.

The exchange offer requires approval of at least 85% of holders of the $185 million in outstanding debt.

Interest expenses were a main cause of a $15.6 million loss in the 1986 year.

Dart last year launched a program of advertising and store-level trouble-shooting to rejuvenate its image and profits in the intensely competitive Washington, D.C., market.

LATE NEWS

- TROY, Mich. — K mart, parent of Pay Less NW, has named Timothy McAlear to the newly created post of executive-vp at Pay Less, reporting to president and coo Ron Schiff. McAlear was most recently gm of the Kresge and Jupiter department stores.
- LIVERPOOL, N.Y. — Fay's has tapped Daniel O'Leary, an accountant with the Touche, Ross accounting firm, as its new cfo starting May 4.
- AUGUSTA, Me. — The Hannaford Bros. supermarket company said that the loss of $2 million in mostly H&BA products from April flooding at a 10,000.-sq.-ft. warehouse here won't hamper day-to-day store merchandising, since the bulk was forward buy items that were stocked for in-and-out promotions.

NEWS IN BRIEF

Perry makes HealthNet exec changes

PONTIAC, Mich. — Perry Drug Stores has made several key changes within its HealthNet Health Care Division, which serves as a single-source provider of health care services for institutions, HMOs, PPOs and large employers.

Perry has named Mike Winkleman assistant vp-operations for the division. Winkleman was formerly general manager of the HealthNet pharmacy services.

HealthNet officers Jane Bagchi and Stephen Swartz have switched roles, with Bagchi now reassigned to assistant vp-marketing and Swartz taking Bagchi's former role as assistant vp-business development.

In addition, Perry has created the new post of assistant vp-sales within the Health Care division.

McKesson combines home health units

SAN FRANCISCO — McKesson Corp. has combined three separate home health care units into a single division that produces more than $60 million in annual revenues.

The new division is made up of Home Health Care Systems, Home Health Care Distribution and Home Health Care Manufacturing.

Thomas W. Field Jr., president and ceo of McKesson Corp., said, "With the aging of the U.S. population and the need to contain health care costs, the outlook for home health care remains highly promising for companies that are willing to make a long-term commitment."

In a separate announcement, McKesson said its Valu-Rite cooperative program for independent pharmacists is being offered in the Northeast through subsidiary Spectro Industries.

Tom Kopkash, vp-sales at Valu-Rite, said, "The Northeast has one of the highest concentrations of independent pharmacies in the country." There are currently 2,500 Valu-Rite pharmacies nationwide. Of Spectro's 5,000 retail customers, about 1,500 are potential Valu-Rite members, estimated Jim Eisenstock, senior vp-marketing at Spectro.

Hannaford names new advertising head

SCARBOROUGH, Me. — Margaret Matteson Urquhart has been promoted to director of advertising at Hannaford Bros. Co. with advertising responsibility for its 67 supermarkets and 36-store Wellby Drug division.

Urquhart since 1976 had been director of merchandising for Wellby stores and director of general merchandise for the supermarket division.

Bolger awarded Torch of Learning

NEW YORK — Robert J. Bolger, president and ceo of the National Association of Chain Drug Stores, will receive the Torch of Learning Award of the National Pharmaceutical Division of the American Friends of the Hebrew University.

The award will be given May 19 at the Marriott Marquis here at the organization's 12th annual dinner, said Sidney Dworkin, Revco D.S. chairman and dinner chairman.

Jack Futterman, president and ceo of the Supermarkets General drug store merchandising division, and David Eisenberg, senior executive vp and coo of Peoples Drug Stores, will pay tribute to Bolger.

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Vol. 9, No. 10 May 11, 1987

NACDS chairman lambasts physician drug dispensing

PALM BEACH, Fla. — Physician dispensing came under fire as "an inappropriate practice that raises serious health questions" in Alex Grass' State of the Industry address at NACDS' annual meeting here.

Grass, chairman of Rite Aid and this year's NACDS chairman, told a packed opening day gathering of retailers, suppliers and others that the chain drug association is seeking a general ban on physician dispensing.

The ban, he said, would allow dispensing by doctors only under limited circumstances, such as in remote areas and then only under the same rules and regulations observed by pharmacists, including record-keeping, labeling, packaging and storage regulations.

Eliminates checks

Grass said physician dispensing "eliminates the checks and balances provided by community pharmacists." It also gives physicians a financial incentive to provide only a limited assortment of drugs, he said, thus depriving patients of the opportunity to shop for price and sometimes to receive the best medication for a particular illness.

"In those few countries where physician dispensing is prevalent," Grass said, "it has resulted in high utilization of medications and an overdrugged society."

Grass blamed the growth on drug repackagers who "entice physicians through their literature that emphasizes profit potential."

The NACDS chairman also focused on other issues on which the association is concentrating its efforts. They include:

- A drive to change the Medicaid reimbursement system into one in which marketplace pricing would be the sole basis for drug reimbursement. Grass said NACDS is urging that Medicaid shift to a voucher system—"an approach that promises to speed payments while reducing the possibility of program fraud and abuse."
- Efforts to challenge discriminatory pricing policies, which allow hospitals and health maintenance organizations to purchase drugs "at a fraction of the price that retail pharmacists have to pay." Often, he said, these nontraditional competitors contend head-on with retail pharmacies, and as a result, "they are becoming a substantial source of unfair competition."

Grass said the industry can live with "fair and open competition, but we have a right to expect a level playing field."

- NACDS is moving to assist drug chains to meet nontraditional competition. Grass said that the association recently contracted with the Center for Health Policy Studies to carry out a feasibility study of an NACDS-sponsored Pharmacy Services Organization. The study will include an assessment of the current PSO market and recommendations on the direction in which NACDS should proceed.

'In those few countries where physician dispensing is prevalent, it has resulted in high utilization of medications and an overdrugged society.'

—Alex Grass
chairman, NACDS, Rite Aid

Tom Thumb/Page acquires 10 Safeways in Dallas growth push

DALLAS — Tom Thumb/Page has stepped up its expansion plans here with the acquisition of 10 Safeway stores.

Representing a total of some 260,000 sq. ft., the 10 stores vary in size, with the largest running about 50,000 square feet. According to Tom Thumb/Page, eight of the stores opened May 1—two as combos—while the remaining two stores, including one combo, will open in several months after remodeling.

Acquired Rx files

In addition to acquiring the structures, Tom Thumb/Page said it picked up the stores' pharmacy files, where applicable.

Last month, Safeway announced plans to sell its entire 141-store Dallas division as part of an ongoing restructuring plan.

Prior to the Safeway acquisition, Tom Thumb/Page had 56 stores and "a fairly ambitious new store program under way," said Jim Stiles, chief financial officer for the grocery and drug chain.

Even without the acquisition of the Safeway stores, Stiles said the company had already anticipated increasing its square footage over the next two to three years by 30%-35%. Five new combo stores were opened in Tom Thumb/Page's last fiscal year, and in the next few years, the company plans to add three to five combos a year.

The Safeway store locations offer some new markets for Tom Thumb/Page, as well as "enhancing the current market position we have," noted Stiles.

Although Tom Thumb/Page said it is advertising the acquisition of the Safeway stores, Stiles said considerable media attention has already been drawn to the sale of the stores.

Stiles added that the increased personnel requirements for the new converted Safeways do not pose a problem for the chain, primarily because of the generally small store sizes.

Thrifty takes to airwaves with POP radio service

LOS ANGELES — Thrifty Corp. has joined the list of drug chains using the POP radio network for in-store broadcasting.

According to the radio network, Walgreens, Eckerd, Rite Aid, Brooks Drug, Fay's Drug, Peoples and Thrift are already using the service, which provides a customized deejay-hosted program that sounds like live radio.

Within each hour, 48 minutes are devoted to general programming, which includes music and casual non-product announcements about the drug chain, while the remaining time is devoted to advertising, according to POP president Robert Hussey. POP sells 10 minutes of the advertising time, leaving two minutes for the drug store's advertising.

Thrifty, according to Hussey, "saw the opportunity to upgrade their in-store merchandising" by going with POP radio. According to the radio network, Thrifty will install the "Thrifty Radio" system by the fourth quarter of 1987.

Canada's Hy & Zel's targets bigger deep discount share

UNIONVILLE, Ontario — Hy & Zel's is breaking away from the Toronto deep discount pack with plans to quadruple its store count to 25 units in five years, following its initial public offering last October.

It will double its store total to 12 in 1987, and nearly double sales to about $120 million, up from 1986's $65 million, according to Zel Goldstein, Hy & Zel's ceo, cfo and co-founder, with Hy Himmel.

The deep discounter plans up to 25 stores in southern Ontario by as early as 1990, as one of Canada's pioneer deep discounters bids for a larger share of an underexploited deep discount market, according to market sources.

The growth is being paid for by bank loans and proceeds from a one-million-share offering, traded on the Toronto Stock Exchange, which raised $9.25 million. Offered at $9.25 a share, shares reached $11 before subsiding at $10.25 in late April, Goldstein said.

Expanding food

The 6-year-old pioneer of Canadian low-price food and drug retailing, meantime, will expand its food component to compete against Loblaws Supermarkets, the aggressive 130-store Toronto-based grocer, said Goldstein.

"We're trying to round out our stores a little bit more," making food account for 40% of sales, up from 30%, and creating a one-stop shopping environment, said Goldstein, whose stores' logo is "The Supermarket Drug Store."

General merchandise, including soft goods, will get more emphasis in the 35,000-sq.-ft. prototype, as Hy & Zel's positions its stores as smaller, more accessible alternatives to Loblaws Super Centers. Seven Loblaws have pharmacies.

Loblaws, owned by George Weston Ltd., combines sharp pricing with an upscale ambiance, and has captured a dominant share of the Toronto grocery market.

Loblaw's impact

"They have the most aggressive pricing policy in the country and have had a tremendous impact on the drug business," noted Larry Latowski, president of Drug World Warehouse Drug Stores, the deep discount drug store arm of Dylex Limited, Canada's largest specialty fashion retailer.

"Whereas before, Hy & Zel's was the cheapest, they're not the cheapest any more," said Latowski, who is aiming for low-price impact himself with Drug World, a three-store operation that now has four units under construction in greater Toronto.

But while Hy & Zel's may occasionally fall short on price, it won't on presence in southern Ontario, where one-half of Canada's population resides.

The chain's growth is outstripping that of competitors, such as Shoppers Drug Mart's Howies, and Herbies, the 2-year-old Hamilton-based low-price business, in a market where "nobody has taken a dive yet," said Latowski.

Howies, with five Toronto units, has emphasized growth farther east. Herbies now has six stores.

Explored sale

Sources said that Hy & Zel's went public only after exploring a possible sale to SDM. SDM went so far as to make an offer, but the H & Z founders were reportedly unwilling to surrender operational control upon sale.

"They've built up a company where they have a lot of family in the business, and I think they wanted to build some protection for them," said a source close to the negotiations.

The corporation retains control of two million out of the three million shares authorized.

Stores average $16 million annual sales and 125 to 175 scripts a day, with prescriptions accounting for 5% of sales. The stores look a lot like U.S. deep discounters, operating on 19%-20% margins, with pricing at 20%-23% below traditional drug stores. "Most of our ideas have really come from the states," Goldstein noted.

In its first report to shareholders, Hy & Zel's announced profits from operations of $644,850, or 25¢ a share, in the nine months ended Oct. 31, 1986, on sales of $43.9 million, which were 93% above last year's comparable period. Goldstein said net profit for the year ending Jan. 31, 1987, hit $1.25 million.

Arbor gains 51% share in 5 Mich. clinic pharmacies

TROY, Mich. — Arbor Drugs has entered into a joint venture with DMC Clinics Inc., the for-profit arm of the Detroit Medical Center (DMC), that gives the 72-store chain 51% ownership in five pharmacies located in Michigan clinics operated by subsidiaries of DMC Clinics Inc.

The joint undertaking will operate under the name Medical Center Pharmacies Inc. and will be a subsidiary of Arbor Drugs.

Through the agreement, the pharmacies will be leased from the DMC subsidiaries. The five clinics include three Woodland Medical Clinics, located in Detroit, Novi and Livonia; the Harper Professional Building in Detroit; and the Warren Memorial Medical Center in Warren.

In addition, the contract provides the right to acquire a sixth clinic pharmacy, the Memorial Medical Center Clinic in Sterling Heights.

Advantageous to both

According to company spokeswoman Rebecca McLennan, the new venture is advantageous to both parties.

"It's very exciting for Arbor to be branching out in this direction," said McLennan. "We are pleased to be affiliated with the very prestigious Detroit Medical Center."

The Detroit Medical Center is one of the largest multihospital complexes in the United States. Located on a 110-acre site in north central Detroit, the complex houses five hospitals and the Rehabilitation Institute.

McLennan added that the venture is "another marketing niche" in Arbor's "primary business of filling prescriptions."

Expanded customer base

From the clinics' point of view, the joint operation will allow them immediately to reap the benefits of an expanded third-party customer base (Arbor accepts virtually every third-party program) and allow them to tap into Arbor's Arbortech pharmacy computer system.

Eugene Applebaum, Arbor Drug chairman and president, echoed McLennan's optimism.

"The venture will allow Medical Center Pharmacies to provide the highest level of professional care for the benefit of the patients of the DMC Clinics," said Applebaum.

It will also place the clinics under Arbor Drugs' purchasing power umbrella. Because of the volume of business Arbor does with manufacturers buying for its 72 stores, it can buy better than a clinic purchasing individually.

"That kind of saving is passed along to the customer," said McLennan. "That allows the clinics to compete in a fairly competitive market."

According to McLennan, the pharmacies are primarily prescription centers with "very limited OTC business."

Chains channel big bucks to sharpen image via TV

Drug chains spent more on television in 1986 to build customer awareness in new markets, restage their images and better use suppliers' co-op dollars, chain spokesmen said.

Eckerd—the biggest spender on TV—launched a major repositioning campaign in September that helped hike its TV ad budget "over 10%," according to an Eckerd advertising manager.

The Television Bureau of Advertising (TVB) said Eckerd—in spending over twice the TV dollars of its nearest competitor, Walgreens—boosted its TV budget to $18.66 million, 24% above 1985.

TVB reported that drug chains overall raised TV ad spending 15%, to $79.5 million in 1986—growth that outstripped spending on print and radio, according to sources that track those segments.

TV in new markets

Walgreens used more television to break ground with shoppers in Boston and Hartford, Conn., new metro markets it entered after buying the Medi-Mart chain last year, according to a chain spokesman.

It boosted TV spending by 50% to $7.87 million in 1986, compared with $5.3 million the previous year, TVB said.

Thrift's Treasury Drug division posted the largest growth, upping its spending 114%, to $1.8 million, TVB said.

Tom Sigerstad, Thrift's manager-advertising, said the chain advertised in Kansas City for the first time to cover "over a dozen" Treasury units. TV ads for Treasury were previously confined to Atlanta, he said.

Perry, among chains posting the largest growth, increased its TV spending 108% to $2.4 million, from $1.17 million, according to TVB. Robert Ruwoldt, vp-advertising, said growth was prompted by a preferred vendor program Perry launched in which buyers used more co-op funds.

"We have started a deep commitment to broadcast, and TV in particular," said Ruwoldt, adding that buyers are more involved with suppli-

See **Chains,** *page 53*

Walgreen and CVS boosted TV ad spending, as Revco slashed budget

	1986 (in millions)	% change from 1985
Total spending	$79.50	15%
	18.66*	24
	7.86	50
	6.10	21
	5.10	2
	5.00	14
	3.30	44
	2.40	6
	2.40	108
	2.30	12
	2.30	65
	1.80	114
	1.70	(17)
	1.70	75
	1.44	(71)
	1.40	35

*Includes $1.3 million of network advertising.

Source: Television Bureau of Advertising; Broadcast Advertisers Reports data in top 75 markets

Walgreens gets merchandising award

The Merchandising Executives Club of Chicago (MEC) honored Walgreens as co-recipient of its "Merchandiser of the Year" award April 16 for the chain's effective use of its Intercom pharmacy system as a marketing tool and a value-added customer service. Also honored was Pepsi-Cola General Bottlers for the marketing of Slice. Vern Brunner, Walgreens senior vp-marketing, is shown accepting the MOTY award at MEC's annual All-Industry Special Salute.

TRENDS

Hair care segments, hosiery brighten ethnic picture

The ethnic hair care market, which enjoyed significant growth for the first half of this decade, bottomed out for the first time last year.

Dollar sales in the segment were down 2% to $285 million, according to A. C. Nielsen's Marketing Research.

Both retailers and manufacturers say the decline was attributable to several factors, including a lack of innovative products hitting the market; the absence of any dramatic new hair styling trends, such as the curl; the current popularity of short hair styles, which require fewer maintenance products; a consumer tendency to buy products based on what's currently on sale; and a maturation of the category in terms of consumption and usage.

Retailers say ethnic products are now at the stage in which growth is coming from brands within the category, but that the category as a whole no longer is growing.

Because the ethnic hair care segment is relatively small in terms of dollar volume ($285 million is just 8% of the total hair care category's 1986 retail volume), it is difficult to get marketing statistics that break out sales within the ethnic hair category by subsegments.

However, retailers, distributors and manufacturers who know the category well say that the growth segments seem to be the conditioning products, the hair styling products (especially gels and pomades), the relaxer products, and to a lesser extent, the hair coloring products in some sections of the country. Black hosiery is growing dramatically, and black cosmetics sales are improving.

"The trend is for extra light conditioners," according to Jim O'Connor, a spokesman for the TCB Division of Alberto-Culver. "Consumers are looking for products that can condition the hair without weighing it down."

Ethnic departments in high-traffic black stores need at least 20 to 24 ft. to be productive, and 36 ft. is often the norm.

The "lite" formulations are popular with black consumers, just as they are with white consumers, because they let users style their hair without causing it to become heavy, dull or stiff.

Color emerges

Buyers and cosmetic clerks at the retail level also say sales of coloring products like Dark & Lovely, Creme of Nature, Born Beautiful, Color Play and Color Accents are starting to turn faster in some neighborhoods.

In New York, Lou Roppolo at Revlon said hair color sales are up 45% over last year, primarily because of the introduction of new products into the category.

"We see a lot of color being sold," said Richard Eicholz, president of Ben Sheftall Distributors. "So many new products are entering the market now that consumers are really getting experimental. I'd estimate our color sales are up about 20%."

In the Midwest, Lou Orenstein, president of Judith Lynn, said that color sales in his markets have been picking up "tremendously."

In Oklahoma, Kent Humphreys of Jack's Service said that ethnic color sales in his market are up about 100% over 1986. Much of the growth, he believes, is coming from new product activity in the market as well as from increased consumer interest in hair coloring as a fashion accessory.

In Los Angeles, Jerry Davis, president of Paul's Sundries, a local distributor, thinks that color could be a very dramatic growth category for drug store retailers.

"The formulations are different from general market products," Davis said, "but I don't think the manufacturers have done enough yet to get that message across to the consumer."

Relaxer and relaxer accessory product sales are doing well at retail. Lou Parent, senior vp-marketing for Carson Products, reported relaxer sales in 1986 were up 10% to about $38.5 million.

Versatility wanted

"Women are fed up with the curl, because it locks them for months into just one style," she said. "Women today want different styles for different occasions and different moods."

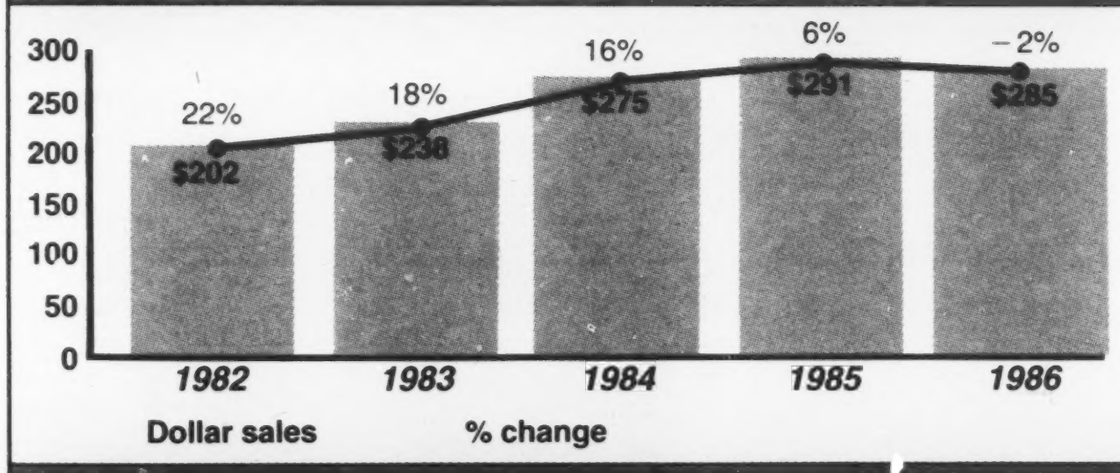
Orenstein of Judith Lynn agrees. "We're re-working our planograms to make more room for relaxers and conditioning products.

"The curl will always be around,

Continued on page 22

Ethnic hair preps: Annual dollar sales trend*

(in millions)



*Drug, food and mass merchandising sales only. Excludes sales of beauty and barber shops.
Source: Nielsen Marketing Research

Black shoppers: What they spend on toiletries and cosmetics

Category	Annual per capita spending		Annual per capita spending as a % of income		Black spending on toiletries and cosmetics as a % of total U.S. spending	
	Black pop.	U.S. total	Black pop.	U.S. total	1986	1995 (proj.)
Hair care	$ 57.89	$20.50	0.8%	0.2%	35.3%	41.3%
Cosmetics and toilet preps	49.44	40.40	0.7	0.4	15.2	18.5
Fragrances	16.76	12.90	0.2	0.1	16.0	20.5
Dentifrices	10.40	8.86	0.2	0.1	14.3	14.6
Shaving preps	2.39	3.16	*	*	9.4	10.5
All other	2.77	4.95	*	*	7.3	8.3
Total	139.65	90.77	2.0	0.8		

Source: Business Travel Analysis, U.S. Dept. of Commerce

Walgreens wins AHBAI award

Walgreens has been named the 1987 Drug Store Retailer of the Year by the American Health and Beauty Aids Institute.

Vern Brunner, the chain's senior vp-marketing, accepted the award on behalf of Walgreens and "our 40,000-plus employees" at the AHBAI annual show last month in Palm Springs, Calif.

In his acceptance speech, Brunner called the award "a tribute to the people who labor seven days a week in our stores to serve the many customers who buy ethnic products."

Brunner also told the attendees at the AHBAI show that Walgreens is committed to the ethnic category.

"We have moved from having only a few products in a few select stores to at least a 3-ft. section in *all* stores, and in some stores, planograms have stretched well beyond 21 ft."

"Walgreens has pushed ethnic products through 47 rotos each year," he said.

Brunner said that in addition to the rotos, Walgreens does "24 ads a year featuring ethnic products in our top 22 markets."

He added that the ethnic category is productive for Walgreens because the chain does more than "just advertise and display ethnic."

Vern Brunner, senior vp-marketing at Walgreens, accepts Retailer of the Year Award from George Johnson, president of Johnson Products (right), as AHBAI president Lafayette Jones looks on.

One of the major factors in Walgreens' success with the category, he said, are the Walgreens cosmetics supervisors "who regularly receive training" through programs put together with ethnic companies.

"The supervisors, in turn, are training our 3,000 cosmeticians," he said. "The fact that we have knowledgeable staff in each of our stores to explain the products has proven to be an exceptional selling point for the ethnic consumer."

TRENDS | Ethnic merchandising

Ethnic cosmetics and hosiery sales picking up

How blacks spend their hair care dollars*
(share of sales by category segments)

Hair Preps	1983 % share	1985 % share
Conditioners	25%	20%
Relaxers	18	12
Curl activators	17	22
Conditioner lotions	15	23
Perm curl kits	9	8
Hair sprays	2	1
Shampoos	9	8
Hair dyes	4	5

*Based on manufacturer dollars
Source: Business Trends Analysts & AHBAI

Continued from page 13

but people today are wearing their hair straighter and they're wearing it shorter," he said.

Many ethnic men, also, are wearing their hair especially short these days, and relaxer products help them achieve and maintain a soft, straight look without kinks showing in the hair.

Curl activator kits are down this year in sales. Both retail and manufacturer sources say curl kit sales are off 20%-30%.

Ethnic shampoos, say retailers, are also flat, and in some markets, down.

On the other hand, conditioners and sprays, which moisturize black hair and give it sheen, softness and styling control, are up 10%-20%, some sources say.

'Natural' products

Last year several retailers, including Walgreens and SupeRx, began experimenting with a line of "natural" ingredient hair and skin care products.

The line, All Ways Natural, has been publicized in the editorial pages of several black consumer magazines.

In the styling sections of black hair care, mousses and gels are very popular with blacks who have relaxed hair.

"The No. 1 category this year," said Humphreys of Jack's Service, "is styling gels. This category has been good for about two years now, and last year sales in this segment more than doubled for us."

Paul Cockrill at J. Strickland said that the sales of all glycerine-based gel products are up dramatically. "They're cleaner than petroleum-based products," he explained. "They don't drip and they can be used to condition the hair without fear of staining."

Men's hair preps

At Soft Sheen, vp-marketing Denise Gardner sees men becoming much more active in the personal care categories.

"The trend is to go back to good, basic grooming," she says. "Men are taking much better care of their hair and you're seeing a lot of growth in the styling aids and the conditioners that are positioned especially for them."

The growth in relaxer sales is also prompting manufacturers to think of creating regimens of hair care items—not just a brand, but a whole line that can treat all the major hair care needs.

Cosmetics sales

Retailers say the cosmetics ethnic lines have been doing fairly well in 1986 and early '87.

The Posner line usually is rated the best in terms of turns and dollar sales, while Zuri is generally mentioned next and Ultra Sheen third.

"Black cosmetics sales are really picking up," said Judith Lynn's Orenstein.

"The manufacturers are also doing a better job of advertising and promoting this category, but I think they'd see even stronger sales if they got even more aggressive," Orenstein continued.

Skin care sales in ethnic have not been dramatic in the past year, but retailers say they are seeing a relatively steady base of sales, and in some chains, certain brands like the Ambi line are generating relatively steady growth.

Ethnic toiletries* profile

Category	% share 1984	% share 1986
Activators/ moisturizers	32.80	34.10
Relaxer kits/ curl kits	18.60	18.50
Oil sheens/comb-out sprays	21.00	17.60
Hair conditioners	11.40	11.90
Skin ointments/ creams/lotions	4.30	4.80
Hair pomades	4.70	4.80
Scalp ointments/ treatments	2.10	2.30
Shaving depilatories	1.40	1.70
Bergamots	1.25	1.40
Shampoos	1.28	1.30
Hair color	0.46	0.98
Pressing products	0.62	0.56

*% share excludes cosmetics
Source: Based on year end sales of Paul's Sundries, Los Angeles, Calif.

Hosiery thrives

Ethnic hosiery is doing very well off what's still a relatively small base. Most of the major chains, including Walgreens, Thrift, CVS, Revco and Eckerd, now have black hosiery sections in most of their stores with 50% or more black traffic.

According to retailers who have spent time studying the black hosiery category, sales in this department are among the highest volume per square foot of any category in most drug stores.

The profit potential in the category is also there, because most ethnic hosiery brands generate 40% to 60% margins.

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Jewelry and watches

TRENDS

Chains synchronize watches with markets

Regional preferences dictate styles, price range

With competition from almost all retail outlets, drug stores currently hold about 10% of the overall watch business, according to figures used by Timex in its retail presentations.

Greatest competition comes from discount and department stores, which account for about 60% of the sales.

Translation for drug stores: Stay up on trends in styles, pricing and consumer demographics.

By keeping their typically conservative Midwest consumer in mind, Indianapolis-based Hook Drug Stores has been able to increase its watch sales. Although fashion and sport watches are important for some chains, the demographics surrounding Hook stores dictate that the bulk of the selection be basic replacement styles, according to Mark Tow, Hook sundries buyer and promotions coordinator.

Fine-tunes selection

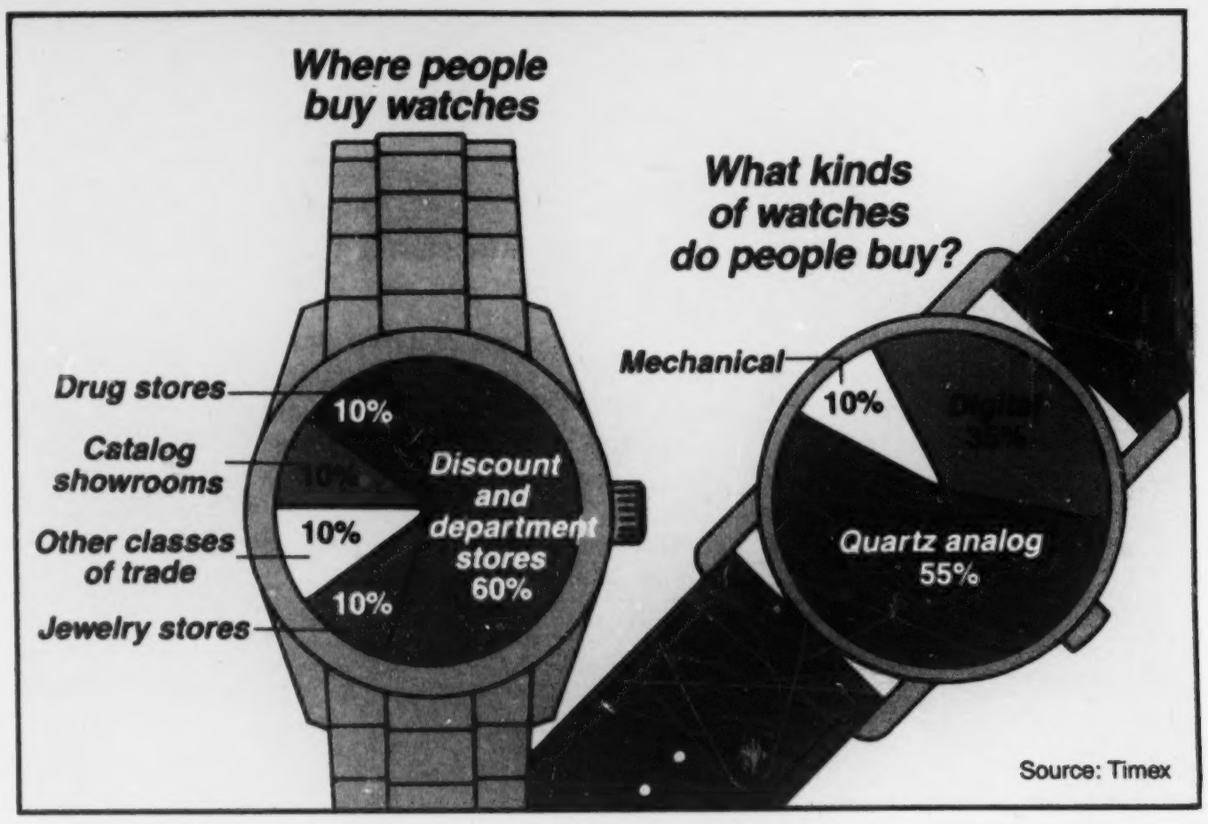
Keeping the selection fine-tuned has meant Hook's "turns have vastly improved over the last few months," said Tow. It is the better turns, not really an increase in sku's, that has helped propel watch sales at Hook. According to Tow, better buying—through the use of vendor-supplied information and materials—has been the key.

Watches are planograned and individual styles are also tracked by computer at Hook, so overall and store trends can be evaluated and acted upon. Currently, Tow said Hook's No. 1-selling watch runs between $20 and $25 and is the very traditional water-resistant gold expansion band with all the numbers and a sweep second hand.

"Watch sales were up over 30% last year" at Perry Drug, according to Marc Fournier, buyer for electronics and sundries. As at Hook, Fournier said the increase at Perry was not really due to increased sku's, but rather a national sales trend spurred by an increase in selection.

Buying strategy changed

At Genovese, changes in the buying strategy brought watch sales up over 30% during 1986, and in 1987 the chain expects to see a 20% gain, according to Lenny Genovese, buyer of front-end and sundry merchandise.



Watches are no longer handled through Genovese's distribution center; instead, rack jobbers handle the store servicing. This allows for experienced people to handle the watches, while also letting stores order directly their best-selling styles from the jobbers, noted buyer Genovese.

In addition to honing their buying tactics, maintaining comparable pricing is necessary for drug stores' placement in overall watch sales. Several chains reported they take some type of everyday discount on their watches, while keeping gross margins around 25% to 40%.

Genovese prices its watches 20% off the suggested retail price on an everyday basis, while taking 30% off the suggested retail price during promotions, according to the chain's buyer. And at a discount drug store in the Port Washington, N.Y.-based Rock Bottom chain, Timex watches are marked 20% off the suggested price.

Promoted at peak times

Typically, watches are promoted by the chains during the peak selling periods—Christmas, Father's Day and graduation time. However, special buys, particularly with the low-end digital watches, spurred some stores to run additional sales throughout the year.

At Sioux Falls, S.D.-based Lewis Drug, buyer Randy Seney said the NDQ budget watches are normally run on promotion at $2.99. Consumers know the low-priced digitals are basically "a disposable watch" and replaceable in six months to two years, noted Seney. This type of watch, he said, is particularly popular with people who work with their hands—such as construction workers—and who don't want to wear an expensive watch. And according to NDQ vp Ron Nolan, drug chains can still make a 50% profit on the $2.99 sales.

Likewise, Harco Drug runs a promotion every 90 days, selling basic Timex watches at $4.99 and $5.99, according to the chain's buyer, Keith Connell.

Continued on page 32

A locked display case for watches allows easy browsing at Eckerd, Indian Rocks Beach, Fla. Service is readily available from the photo/cosmetics counter nearby.

Jewelry, watches basic to gm mix

While drug retailers carefully scrutinize their general merchandise categories, jewelry and watches appear to be above this examination. Chains nationwide report they are maintaining these areas because of high-margin sales from relatively little space.

Seasonal events push the bulk of watch sales, although fashion and sport styles bring in customers throughout the year, while jewelry sales revolve around the changing fashion season. Both categories pick up some impulse sales, particularly jewelry, where earrings account for most of the business.

Chains said the necessity for keeping abreast of style changes, consumer tastes and competitors' prices were the key issues in making both watches and jewelry profitable.

Jewelry profits gleam in setting near cosmetics

Retailers work closely with vendors on selection

The fashion tie-in between jewelry and cosmetics works to create multiple sales for chains—since merchandise display racks are in or near the cosmetics area—and jewelry alone is often an impulse sale.

High gross margins, ranging from 50% to 65%, and jobber handling add to the attraction of jewelry.

Store service

At Genovese, which is expanding its jewelry effort, Accessories Associates Inc. pre-tickets the jewelry, and handles markdowns and returns, since the chain does not devote a full-time person to the category, according to cosmetics buyer Stephanie Hayter.

Hayter said the chain is "just really getting started in it [jewelry], and in the last 60 days, we've doubled the number of stores carrying it." So currently, about half of the chain is stocked with merchandise, which is typically shown on a 4-foot-square single tower display and a 4-by-2 table.

Harco Drug also works with AAI to plan out the jewelry selection for the stores. According to cosmetics buyer Penny Wade, AAI sends Harco seasonal boards with a mix of merchandise for approval by the chain.

Jobbers also service Austin Drugs on a weekly basis, according to one store manager, who noted that his cosmetics manager works closely with the vendors to choose the best selection for the store.

Several chains said they place a price limit on jewelry, leaving it up to the jobbers to pick the selection—knowing that is in the best interest of everyone involved to provide top-selling styles.

"A lot of the stores we work with don't want to get involved with the picking and choosing from samples," explained Ken Logsdon, vp-sales for the Gerson Co. Working with chains like Bartell, Skaggs, Longs and Osco, Logsdon said he is able to see what merchandising tactics produce the best jewelry sales.

Secret is good mix

"The secret to costume jewelry is a good mix of current fashion merchandise, housekeeping and a salesperson that likes and knows jewelry," Logsdon explained.

Drug stores and vendors alike agreed it is necessary for the retailer to keep a broad selection of merchandise in order to compete with the mass merchandisers like K mart.

"The chain drug stores have some different needs, but they're coming closer to the general merchandisers," noted AAI president Jack Flynn. AAI has noticed an overall upgrading of jewelry by drug chains and some aggressive promoting by retailers, such as Harco.

Fashion colors, complementing the current season, are staples in the jewelry business, noted chains and vendors. However, metallics, rhinestones and tortoise shells are updating the category this year.

Harco splits its selection 50/50 between the basic styles and the more fashion forward looks. Similarly, Genovese maintains an even mix between the classic conservative styles and the fashion colors.

Drug stores said they offer necklaces and bracelets, but earrings account for the bulk of the business. And by emphasizing the impulse nature, chains reported they keep prices between $2 and $10, with the majority of sku's falling in the under $5 range.

TRENDS

Jewelry and watches

Chains opt for sport, basic watches over fashion

Drug stores look to keep a mix of current watch styles, while dipping into the fashion watches on a limited basis and only if their customer base calls for the varied selection.

Manufacturers agree with this strategy and note that drug stores also have to keep their prices in check, since many of the sales are impulse purchases.

The Timex Watercolors and the Omni watch are selling well for most chains, such as Genovese, where approximately 30% of the stores' offering is fashion watches, according to Lenny Genovese, buyer of front-end merchandise and sundries. The chain said 80% of its business comes from the watches priced under $39.95 retail, with the remainder of sales ranging above this price, going as high as $54.95.

Lewis Drug keeps "a little mix, there has to be some" fashion styles, but the bulk of the stores' selection is again the basic quartz and digital watches, noted Randy Seney, buyer for the chain.

Styles must prove worth

Lewis maintains a selection of budget, basic and fashion watches, buying its Timex and Lorus lines through a distributor, while fashion and budget styles are purchased directly by Lewis' buyers. For new items, Seney said he follows his instincts and "buys light," until styles prove themselves. Prices vary from $2.99 to $79.95, but the bulk of the business for Lewis falls in the $29 to $34 range.

Women's styles still outweigh the men's selection at Lewis, and although other chains said this used to be rule, many reported they are now selling a 50/50 mix.

Both men's and women's sport watches have come on strong for many drug store chains, as the country continues to show interest in athletics. At Perry Drug, the "initial response on the Casio sports watch is strong," and the chain runs the digital watches from $10 to $30, said buyer Marc Fournier. According to the buyer, the sport watches are "being purchased by more than just the youth."

Perry also carries some fashion styles, primarily the Sharp brands, and Fournier said they are testing some bangle watches in a few of their stores.

Shuns fashion looks

Hook Drugs stays away from the fashion looks altogether, since the stores cater to customers age 25 to 50, who are generally not interested in anything but a basic watch, according to sundries buyer and promotions coordinator Mark Tow.

Tom Thumb/Page keeps about 10% of its selection devoted to fashion styles in order to remain flexible and up-to-date, according to Ray Martin, buyer and merchandiser for general merchandise and direct-store delivery.

Watch selection fitted to markets

Continued from page 31

Tom Thumb/Page usually runs an entire brand on sale, although on occasion just one or two styles have been promoted, according to Ray Martin, buyer and merchandiser for general merchandise and direct-store delivery. Although the bulk of the line is planogramed, Martin said the individual stores are left flexible in pricing in order to stay competitive with surrounding stores.

Promotional merchandise and everyday sku's are typically merchandised in or near the photo service counter for most drug chains. Cases and freestanding displays hold the bulk of the watches, while pegboards, endcaps and small swivel racks are often used to merchandise the low-end digital watches. And although sales are up for most chains, watches have generally not been given more space.

At an Austin drug store on Long Island, N.Y., Casio and Timex watches are displayed up front in two display racks near the counter area. Sell-through is about 100 watches every two months for store manager Bob Wahmann. Distributors work directly with store managers to stock and maintain the selection, according to Austin Drugs president Gary Lefferts.

Looking to maintain a reputable image with their watches, Tom Thumb/Page keeps their watches in the service area. "It destroys credibility when you stack them out on the table; we want the customer to be serviced," explained Martin.

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Sherwin-Williams refocuses

Continued from page 1

either, we know it has taken up an inordinate amount of management time" in efforts to put the chain on a solidly profitable basis, the chairman noted. The decision last summer to sell the chain, he added, was "based on our conclusion that our company's resources could best be devoted to our core business."

After the meeting, Breen told *Drug Store News* he still hopes to complete the sale of Gray by the end of the second quarter, which ends June 30. He added, however, that the company has no firm timetable.

"When you're dealing with an LBO (leveraged buyout) situation, there's no real way of telling how long it might take," Breen said, referring to the Bellini group's continuing efforts to line up the financing package to take Gray private. "Look how long it took the Revco people."

Revco D.S. was taken private last year after protracted efforts by inside managers, led by chairman Sid Dworkin and president William Edwards, and outside investors.

"We're not controlling the buyout process, and due diligence takes time," Breen added. "It's quite possible it could take longer."

Made progress

While acknowledging Sherwin-Williams' disappointment with its chain drug division, Breen praised its return to profitability under Bellini and current interim president Jim Mastrian. "We intend for Jim (Mastrian) to stay with Sherwin-Williams after the sale," he said. "He's an excellent manager."

Despite its parent company's decision to get out of the drug store business, Gray has made significant progress in many areas since 1984, when operating profits bottomed out at $82,000 for the year. Since that time, Gray managers and employees have succeeded in remerchandising and sprucing up stores, with a tighter focus on basic drug store items, a clean shopping environment, a strong health care image and improved customer service and convenience. Some 300 Gray and Drug Fair stores have also been outfitted with pharmacy computers, and new systems for inventory replenishment and control have been installed at the warehouse and store levels.

Gray advertising executives have also boosted the chain's visibility and image with more aggressive advertising and an emphasis on Gray's convenience, low prices and service.

'On right track'

The result: Sales are way up in many departments, including pharmacy, and pretax earnings have mushroomed to $6.7 million in 1985 and $10 million last year.

"Sure, we have problems, but our big problems now are the same as those which face the whole chain drug store industry," said one Gray source. "We have or still have our work cut out for us, but we've come a long way in a short time and we're definitely on the right track."

Eckerd sheds Med-Care

Continued from page 1

Inc., which operates three home health outlets in its home base of Atlanta, and one in Birmingham. The buy lets Markka enter Florida, where Foster Medical, along with "Mom-and-pop" businesses, have been Eckerd's chief competition in home health, according to Markka principal Vance Wall.

"It was part of our strategy to be in Florida anyway," Wall noted.

Besides being a business that must carry a high portion of outstanding receivables stemming from sale and rental of high-ticket merchandise, home health care is service intensive. Markka speeds up collection of receivables using an in-store computer system—something Eckerd has lacked.

Big B is buying Eckerd units that match its 8,600- to 10,000-sq.-ft. prototype size in the state's most populated markets outside of Birmingham, said Bob Little, Big B's vp-store operations.

The buy won't affect the 178-store chain's planned 20-25 new store 1987 rollout, said Little.

Revco, itself striving to pay for a leveraged buyout, is withdrawing from a metro area where it opened as many as three units in the last two years, according to a market source. "Revco is not doing much in this market," the source said.

CVS eyes new DC

WOONSOCKET, R.I. — The 500,000-square-foot distribution center CVS might open in southern New Jersey next year would relieve some pressure from the regional DC in Victor, N.Y.

The Victor facility has been overtaxed for awhile now, sources said, in its efforts to service approximately 75 CVS stores in the New Jersey market and about 40 stores in Pennsylvania.

CVS currently has 152 stores in New York, which is the chain's second most heavily concentrated market after Massachusetts, where CVS operates 165 stores.

Later this year, CVS plans to open its third distribution center. It will be a 200,000-sq.-ft. facility in Rancho Cucamonga, Calif., servicing the state where CVS now has 36 stores.

House prepares bill

Continued from page 1

Dingell (D-Mich.), committee chairman, said recently. The proposal was expected to be introduced in April.

The planned legislation would restrict or ban greenmail, in which a raider sells stock it owns in a target company to the company at a premium price, in return for dropping a takeover effort. The bill would also lengthen the period allowed for tender offers, to give shareholders more time to consider them, and shorten the period in which investors must disclose their stock holdings.

Target companies would face restrictions on poison pill strategies, under a mandate of one share-one vote, that would eliminate the dual classes of stock often used defensively.

The legislation proposes also to cut out golden parachutes.

SGC buyout plan weighed

Continued from page 1

man, who said in recommending shareholders' approval of the MLCP buyout plan, that he would not participate.

Current Pathmark president Kenneth Peskin would become chairman and ceo, executive vp James Dougherty would be president and Jack Futterman, the drug division president, would become an SGC vice-chairman.

Tender offer endorsed

MLCP—which took Eckerd Drug private in 1985 and owns a controlling share there—made a tender offer of $46.75 for up to 32.8 million (85%) of outstanding SGC common shares. SGC management unanimously endorsed the plan, heading off an estimated $45 per share offer that was made and withdrawn by Dart, which hadn't responded to the new bid by presstime.

Following a merger of SGC with the planned new company, stockholders for their remaining shares would receive $27.50 of 13⅛% junior discount subordinated debentures and seven-tenths of a share of $3.52 cumulative exchangeable redeemable preferred stock of the parent corporation.

The plan follows about two months of near silence by SGC management since Dart Group first made a bid March 6. MLCP's buyout offer resembles the pattern that emerged last year, when the Kohlberg, Kravis and Roberts investment banking company stepped forward to outbid the Dart Group for the Safeway Stores. Under somewhat different circumstances, MLCP became involved at Eckerd after Dart put the drug chain company into play, by offering and then withdrawing a purchase plan.

Hafts plan suit

Meanwhile, it was reported that the Haft family, Dart's owners, plans to sue Merrill Lynch for damages that it alleges arose from the investment banking company's role in Dart's offer for SGC. Merrill Lynch said it had exchanged information about SGC with the Hafts earlier this year, before organizing the planned SGC management buyout. Dart also said it is keeping its options open on its next move regarding SGC.

"I would think this price is overpaying as it is," said one analyst about the offer by the MLCP group.

Chains spend for TV time

Continued from page 3

ers to coordinate co-op TV with print ads and ensure more co-op is used.

Revco is re-establishing its TV/print mix in 1987, after sharply curtailing TV spending in 1986 to meet budget needs, said Revco chairman Sidney Dworkin.

Revco TV spending had plummeted 71% to $1.4 million in 1986 from $4.9 million in 1985, TVB reported.

Dworkin said that "budget constraints" caused the decline, but that the chain is already using image-type ads in 1987 that will somewhat restore the TV/print balance of earlier years.

Drug chains see the TVB survey as a reliable indicator of spending trends, although the results are imperfect, since they are based on monitoring TV broadcasts. They can't factor in co-op funds and negotiated rates.

While chains declined to share their ad budget breakdowns, some spokesmen confirmed that TV is accounting for a greater share of their total ad budgets.

Meanwhile, the Newspaper Advertising Bureau reported that advertising by drug stores in newspapers increased 5.6% in 1986 to $402.5 million. And radio advertising—including network, spot and local sponsorships—grew 7% from 1985 to 1986, led by 15.6% growth in network ads, according to the bureau.

Eckerd launched a campaign of 60-, 30- and 15-second image-spots by W. B. Doner agency aimed at the convenience-minded female shopper. It also spent more on co-op advertising and introduced its Express Photo department in the Tampa market with TV, said Julie Gardiner, an Eckerd advertising manager.

Boston market sources said that Walgreens' entrance is an apparent reason for stepped-up TV advertising by CVS, which TVB said boosted its TV budget 44%. "They've bought a lot of TV time, and Boston is an expensive market," a source noted.

Melville sales up, net income down

HARRISON, N.Y. — Melville Corp., parent of CVS and Freddy's, reported higher sales and lower net income in the first quarter ended March 28.

Sales climbed to $1.07 billion in the quarter, compared with $1.03 billion in the comparable year-ago period.

Net income slid by more than 20%, however, to $8.04 million in the most recent quarter, from $10.73 million in same period a year earlier.

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DRUG STORE NEWS

Vol. 9/No. 11 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. May 25, 1987

Rite Aid hits $2B in sales, 2,000 units

By Al Heller

SHIREMANSTOWN, Pa. — When Rite Aid's purchase of 356 Gray Drug and Drug Fair stores is completed on June 26, the fast-track chain will leap to No. 5 in industry volume at nearly $2.2 billion and pass Revco for the store count lead at 2,042.

Playing its own game of "can you top this," Rite Aid since last fall has repeatedly entered the takeover market and contracted to buy stores in the East and Midwest that grew its roster of retail outlets by a stunning 45%.

That's no small feat, considering that Rite Aid already posted $1.66 billion annual drug store sales and operated 1,686 drug stores as of April 15. No other drug retailer is taking strides like this.

Major Midwest presence

The pending $115 million cash purchase of these stores in nine states and D.C. gives Rite Aid an overnight major Midwestern presence and fills in its continuous run down the Eastern seaboard.

Moreover, it adds to states where Rite Aid already operates, is familiar and garners buying and distribution efficiencies without significant cannibalization.

It follows by five months Rite Aid's $110 million takeover of 218 SupeRx, Gray Drug and Drug Fair stores in Maryland, Georgia, Florida and Alabama. That followed the purchase of nine Harris stores in North Carolina last fall.

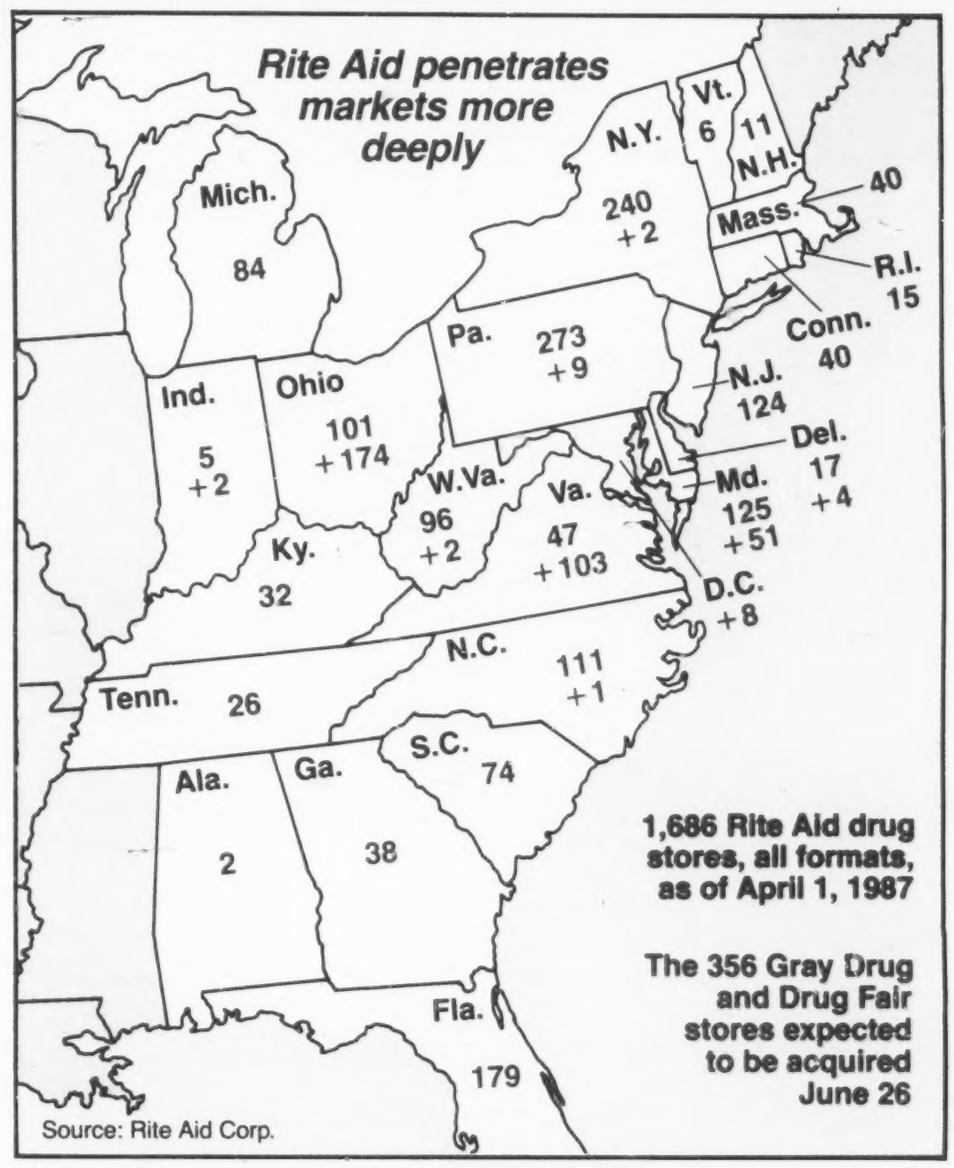
"We never wanted Gray Drug Fair all at once," Martin Grass, executive vp of Rite Aid, told *Drug Store News*. "We had a game plan to get Baltimore and Florida. If we got the rest, OK. If not, we'd live without them."

Serious negotiator

The integration of Florida went smoothly. When former Gray Drug Fair president Carl Bellini couldn't pull financing together by a March 1 deadline, "the doors opened," said Diane McCormick, Sherwin-Williams spokeswoman.

Several sources close to the

Continued on page 3



Buying show draws crowd

NEW YORK — Merchants from about 100 drug chains were preparing to attend the combined Associated/Affiliated spring buying show at the Omni Park Central here.

The show runs from May 18-20, and is scheduled to include exhibits from 110 vendors showing about 500 general merchandise lines. Cosmetics and health and beauty aids also are to be displayed.

First-time exhibitors this spring include the COMB liquidator wholesale division, wall decor supplier Intercraft Industries, Panasonic appliance division, product developer and importer Aurora Im-

Continued on page 77

Dart is refinancing to ease debt costs

LANDOVER, Md. — Dart Drug Stores is attempting to recast its financing for the second time in 11 months to delay repaying some burdensome costs of its 1984 leveraged buyout.

Its current bid to exchange $160 million of 12.7% senior debentures for 6.5% convertibles and common shares is expected to face a rough reception.

The 81-store chain has turned in negligible sales gains since going private and hasn't been in the black yet, largely because of heavy interest expenses.

While Dart management tries to rally its stores into profitability with a massive image-recast campaign, improved merchandising and expense controls and a two-pronged urban/suburban location strategy, it is also trying to buy time for its programs to grab hold.

Would slash debt

A successful exchange offer would slash Dart's debt in half, from $205 million to $106.5 million. It would also cut annual debt costs from a projected $28 million in 1987 to $8 million.

If the exchange offer is consummated, Dart will keep its foothold in this hotly competitive Maryland-D.C.-Virginia belt, where Safeway and Giant Food have greatly increased their pharmacy/H&BA presence and where Peoples, Drug Fair and Dart

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HMO's $ woes threaten 2 chains with big losses

By Pamela Krein

MIAMI — Eckerd is reportedly owed more than a million dollars from faltering International Medical Centers (IMC), a health maintenance organization here that is currently under federal investigation.

An industry source told *Drug Store News* that Walgreens is owed a similar amount by IMC. Both drug store chains hold contracts for the HMO's scripts services.

IMC has been under investigation for some time, stemming from complaints of delayed bill payments and improper membership enrollment quotas. In April, IMC president Miguel Recarey was forced to resign after being indicted on charges of conspiracy, obstruction of justice and bribery.

In early May, the federal Health Care Financing Administration announced its in-

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LATE NEWS

- DEERFIELD, Ill. — Walgreens has withdrawn in at least five states as a pharmacy provider for Maxicare, a national HMO. The five states are Texas, Illinois, Indiana, Wisconsin and Kentucky. Reasons cited included an inability on Maxicare's part to control utilization and the HMO's unwillingness to increase capitation or share risks.
- NASHVILLE — Nashville Drug Distributors will open the first of a projected five franchised Drug Emporiums here this summer. The site is a 24,000-square-foot retail space in the Rivergate Marketplace Shopping Center.
- Safeway Stores is negotiating the sale of at least 60 units in its 118-store Houston division to a group of local employees and private investors, as its breakup continues under ownership by the Kohlberg, Kravis and Roberts investment group, it was reported.

Price Club launches pharmacy

SAN DIEGO — Area drug stores will face another form of competition here with Price Club's scheduled May opening of its first pharmacy.

The membership warehouse company said the move will enhance its customer service offerings. Price Club also recently opened an optical department.

The 27-warehouse chain operates on a low-margin basis, selling groceries, H&BA, liquor, apparel, tires and appliances to wholesale and retail customers.

Although Price Club normally takes the lead in the membership warehouse club industry, Seattle-based Costco opened the first pharmacy a year ago at its Portland warehouse.

Near front registers

Like Costco, Price Club is locating its pharmacy within the warehouse, but up front and forward of the register area. Initially, the company said, it will operate just the one pharmacy and optical center at its Morena Boulevard location—the company's original warehouse outlet.

The Morena pharmacy will serve as a test, the company said, and will carry a typical prescription pharmacy offering. Future plans for the pharmacy department were not disclosed by the company, but industry sources expect the warehouse leader will proceed as Costco did, allowing for a shakeout period to fine-tune

Continued on page 77

NEWS IN BRIEF

Suits against SGC's LBO combined

WOODBRIDGE, N.J. — Nine separate shareholder lawsuits meant to block the leveraged buyout of Supermarkets General have been consolidated in Delaware Chancery Court. The LBO group, which includes company management and Merrill Lynch Capital Partners, said the suits are baseless, according to reports.

Analysts have told *Drug Store News* the SGC management group would have to assume so much debt that it would threaten store growth and maintenance spending programs and its Pathmark division's role as a price leader.

Dominick's quietly folds its Jerry's

CHICAGO — Dominick's Finer Foods' yearlong venture into deep-discount drug retailing officially ended last month, with the closing of its three Chicago-area Jerry's.

The units were closed with little fanfare in April, two months after the supermarket and combo store operator announced its intention to get out of the off-price drug store business in order to concentrate on other ventures, including its new Omni Superstores division.

Prescription files for two of the three units, in Chicago and Franklin Park, were transferred to nearby Dominick's combo stores. Prescription business from the third Jerry's store, in the near-north suburb of Lincolnwood, was sold to a nearby Venture discount store with its own pharmacy.

Thrift names Sigerstad vp-marketing

PITTSBURGH — Thomas Sigerstad, Thrift Drug's manager of advertising, has been named vp-marketing, in the wake of the appointment of Robert Hannan as president. Hannan is replacing retiring president James Armor.

Sigerstad will now be responsible for the departments of advertising, merchandise presentation and store installation in the newly created position. He will report to Anthony Civello, who at the time of Hannan's appointment was named to the new post of executive vp in a three-man Office of the President.

Bruce Columbus, who had been assistant ad manager, will replace Sigerstad as manager of advertising, the position Sigerstad had held since 1980.

In another appointment, Thrift announced that Janice L. Meikle has been named vp for prescription and DME programs. She had been manager of pharmacy systems.

Fay's new cfo familiar with chain

LIVERPOOL, N.Y. — Daniel J. O'Leary, the Touche Ross & Co. accountant whom Fay's has named as its new cfo, was the supervising partner on Fay's independent year-end audit when he was director of audit operations in the accounting firm's Rochester, N.Y., office.

"Mr. O'Leary will be a valuable addition to the Fay's management team," said Fay's chairman Henry Panasci. "His experience of providing a broad spectrum of professional accounting and financial services should benefit the overall operations of the company.

O'Leary was most recently partner-in-charge of the Touche Ross Columbus, Ohio, office. Prior to that, he held the Rochester post.

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Vol. 9, No. 11 May 25, 1987

Henry Gray, force at Gray and Revco, dies of stroke

TWINSBURG, Ohio — Henry Gray, who lent his name to the Gray Drug chain where he worked for 39 years and then became an officer at Revco, died May 10 at Mt. Sinai Medical Center, Cleveland, after suffering a stroke. It was his 84th birthday.

"Henry Gray's death is a great loss for Revco, and for the entire industry," said Revco chairman Sidney Dworkin. "He was a teacher of many, and an inspiration to us all. His contributions to the industry were tremendous; his work was tireless; and he will sorely be missed."

Gray, a Cleveland native, was with Revco for the last 19 years, as an administrative vp and then as vice chairman of the board.

Joined Revco in 1968

He had joined Revco at Dworkin's urging in 1968, shortly after retiring at age 65 from the 200-store Gray Drug company, which he had helped found.

"Dworkin realized that Gray's years of experience, his knowledge and expertise were assets too valuable to ignore," the company said, in announcing his death.

Henry Gray

Gray started with a two-year contract at a time when the chain had 174 stores in seven states. Nineteen years and 1,800 stores later, Gray's contract was still in effect. On Jan. 1, he formally retired as vice chairman of the board, and gave up his post as president of the Revco Foundation, which supports nonprofit organizations. But he continued to come to work through April, a Revco spokesman said.

Longtime devotion

Since his teens as a drug store stock boy, Gray had devoted his life to the business.

"Bitten by the drug store bug," as he often said, Gray opened his first store in downtown Cleveland in the late 1920s. Then in 1929, he sold the store and teamed up with Adolph Weinberger, who owned a small chain.

Gray worked his way up to district manager, then was elected vp-store operations in 1940. In 1945, the stores, which were operating under three names, were consolidated under the Gray name, which was thought to be easy to remember and short enough for easy painting on a sign. Gray sold the right to his name for $1.

In 1975, he received an honorary doctorate degree in public service from Ohio Northern University for his dedication to the field of pharmacy and his support of the university's pharmacy school. The same year, he received a Spirit of Life award from the City of Hope medical center in La Jolla, Calif., which also established the Henry Gray Medical Research Fellowship.

He is survived by his wife, Ruth.

McKesson predicts supermarket Rx's to increase 40% in 2 years

CHICAGO — In-store pharmacies in supermarkets will increase in number by 40% over the next two years as the grocery industry becomes increasingly wedded to prescriptions for profit, according to a recent study by McKesson Corp.

McKesson's findings on the future of pharmacy in supermarkets were presented at the annual meeting of the Food Marketing Institute here May 4. In a workshop on "The In-store Pharmacy: Prescription for Profit," supermarket industry panelists reaffirmed their commitment to combination store retailing in general and in-store pharmacies in particular.

When properly set up and marketed, prescription departments offer supermarket chains a solid source of high-margin profits and customer satisfaction, the panelists agreed. In addition, in-store pharmacies help drive sales of related products, including H&BA, vitamins and general merchandise. A spokesman for McKesson predicted that those rewards would continue to lure new supermarket competitors into the prescription business.

"Our findings showed that almost all food chains currently operating pharmacies will open more of them over the next two years, and that more than one-third of those chains not yet in the business will open some pharmacies during that time," noted William Bales Jr., president of supermarket services, McKesson.

A study for McKesson conducted by the Allen Levis Organization found a variety of reasons for the growth in supermarket pharmacy. Among the most powerful: high gross margins for pharmacy, pegged at about 25%-35% vs. average margins of about 20% in supermarkets.

Food chains also look to pharmacy departments to boost their one-stop appeal, to defend their turf against other combo operators and to stimulate sales in their other non-foods areas, including H&BA and OTC drugs, according to the study.

McKesson found that supermarkets with pharmacies enjoyed a 20% to 40% boost in sales in H&BA and related products. Significantly, those stores also give more room to drug-related merchandise.

"A commitment to related departments is essential," researcher Allen Levis told the audience. "We found that supermarkets with in-store pharmacies have about 40% more sku's of H&BA."

Requires commitment

Levis and Bales warned FMI members, however, that opening in-store pharmacies required a high level of commitment from supermarket operators, as well as patience and expertise. Said Bales: "The break-even point for supermarket pharmacies takes about 22 months. In addition, pharmacies entail increased security risks and a definite change in management's way of thinking."

Levis and Bales were joined by panelists Lee Roy Treadway, vp-pharmacy operations for Tom Thumb-/Page Food & Drug Centers in Dallas, and Manny Richman, vp-professional services for Giant Food in Washington, DC. Both chains are in the forefront of supermarket combo store retailing.

Among the reasons: Both give ample attention to the basics of successful pharmacy, including a professional, ethical atmosphere; conveniently located pharmacy departments in the stores; highly trained and motivated pharmacists; and a variety of customer services.

"We've learned that pharmacy location in the store is very important to our success, so our pharmacies are located in a prominent position at the right front side of the store, adjacent to H&BA, vitamins and other related products," said Treadway. "The departments are designed to encourage customer contact with the pharmacist."

Customer conveniences

Tom Thumb/Page offers a number of customer conveniences, Treadway reminded his listeners. "Our image is enhanced by special services," he said, including late-night hours in some stores, chain-wide computerization, free blood pressure machines in some locations and delivery in some areas. In addition, the chain pioneered Rx price advertising in the mid-'70s in Texas, and brought discount couponing in prescriptions to its market.

Continued on page 77

TRENDS

Hair care sales rise 3%, growth spurts in sprays, styling aids, men's preps

The overall hair care category was flat again in 1986.

According to A. C. Nielsen, the total category grew by 3% in dollar sales to $3.4 billion. In 1985, the category was only up 1% to $3.3 billion.

Shampoo, which accounts for 36% of all hair care sales, was flat also in 1986. Dollar sales were up only 1% over 1985 to $1.226 billion.

Conditioning agents, the second largest segment in the category with a 20% share, was also flat, with a 2% dollar sales increase to $683 million.

Hair permanents were down again in 1986. Sales this year were off 7% to $128 million. In 1985, they were down 6% to $138 million.

Ethnic hair preps were also flat after having enjoyed several years of really strong growth. Dollar sales in 1986, Nielsen says, were down 2% to $285 million.

The four growth segments in the category were: hair sprays, up 10% to $526 million; styling products like mousse and gels, up 21% to $240 million; hair coloring products, up 9% to $434 million, and men's hair preps, up 5% to $133 million.

Mousse sales didn't grow as dramatically as earlier in the decade. Their sales definitely show a maturation of the category.

A. C. Nielsen did not break out styling aids in its breakout of category sales in 1986, but according to manufacturer estimates, mousse grew by about 13% to an estimated $200 million in 1987, while its younger sister, the gel segment, more than doubled in dollar sales in 1986, surging ahead to be about a $40 million category.

The only other category to show better percentage growth was the nontraditional special effect hair coloring brands (Pazazz, Colorific, Roux Fanci-Ful).

Manufacturers of these brands say the approximate growth in this segment of coloring in 1986 exceeded 180%.

Apparently consumers are treating their hair as a major fashion accessory, and the growth in the category is coming from those segments that appear to make the hair softer, fuller, easier to style and more dramatic.

Moreover, the trend seems to be as strong for men as it is for women. Both retailers and manufacturers say they see men spending considerably more money for products that promise superior grooming.

Soft, fuller hair styles are driving the growth in the hair care category, as consumers treat their hair as a major fashion accessory. They are highlighting it more with color, experimenting with special effects products and using mousses, gels and sprays.

Michael Christopher Designs

Hair care sales by retail segment

	1984	1985	1986
Drug stores	38.4%	38.2%	38.7%
Mass merchandisers	19.8	19.6	19.1
Food stores	41.8	42.2	42.2

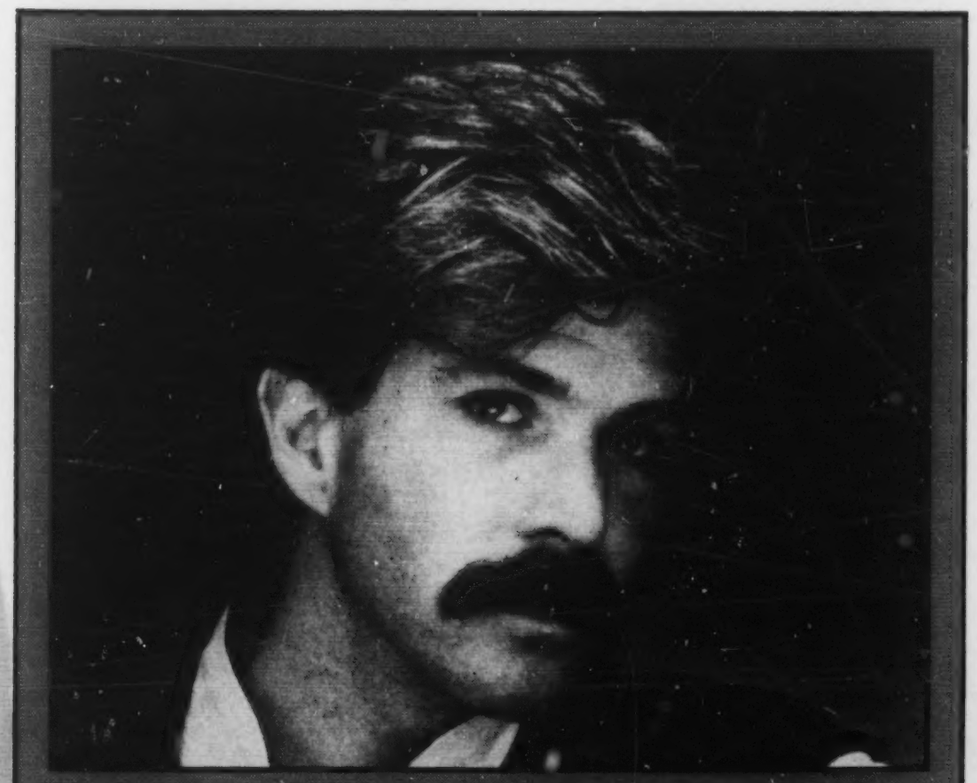
Source: Nielsen Marketing Research

Hair care: Retail dollar sales by category segment
(in millions)

	1984	% chng	1985	% chng	1986	% chng
Shampoos	$1,233	5%	$1,224	–1%	$1,226	1%
Conditioners	662	3	670	1	683	2
Sprays	449	8	477	6	526	10
Color	398	3	397	0	434	9
Ethnic	275	16	291	6	285	– 2
Men's hair preps	117	1	127	8	133	5
Home perms	146	1	138	–6	128	– 7
Total	$3,280	5	$3,324	1	$3,415	3

Source: Nielsen Marketing Research

Retailers pare mousse sku's; vendors step up promotions



Spending in the hair category is not limited to women. Retailers say men are also spending more for hair-grooming products.

Michael Christopher Designs

Last year, the growth in the mousse segment started to level off from the 200% levels it had enjoyed during its first two years as an emerging category. Retailers reacted to the slowdown by paring sku's.

In 1985, some 200 sku's were introduced to the market and retailers felt the category was not large enough in dollar volume to justify that many items. The current trend is to give most of the space to the top five to 15 best-selling brands.

For the two-month period ended last November/December 1986, Nielsen showed that six brands had a 57.7% share of all unit sales in the mousse/gel segment and a 58.4% share of all dollar sales. The No. 1 unit seller was Clairol's Condition mousse followed by Free Hold.

Alberto-Culver and Revlon's Flex were virtually tied for third place while Suave and Sassoon were the fourth and fifth best sellers respectively.

Manufacturers said they expect the shakeout in this segment to continue in 1987, as retailers finish paring their sections to feature the best-selling brands.

Retailers said they see manufacturers stepping up in-store promotions that will ensure sell-throughs and protect brand share, especially for the manufacturers whose brands are already dominant.

More Free Hold promotions

This summer, for example, L'Oreal will promote its Free Hold mousse with a combination trade allowance and instant point-of-sale rebate coupons that will allow consumers to buy Free Hold for "free."

In July and August, L'Oreal will be shipping some three million $1.99 rebate coupons into stores for instant redemption at the register. If retailers feature Free Hold at a sale price of $1.99, the purchase will not cost the consumer a penny.

L'Oreal hopes that the promotion will build store traffic and market share for Free Hold.

Hair sprays

Mark Goldstein, president of Faberge, said the trend today is for aerosol sprays to outsell nonaerosols.

"Mousses and gels," Goldstein said, "have helped the consumer to be more aware of

Continued on page 17

Hair care

TRENDS

Sales climb for special effects in hair segment

Continued from page 11

the need for styling aids. Aerosols are more efficient than nonaerosols. The gap between their sales and the sales of nonaerosols is definitely widening."

"In the last couple of years, there's also been a trend to much younger people using sprays," said Alberto-Culver's Jim O'Connor. "The mousses and gels are being used to structure and shape the hair and the sprays are being used for holding as well as for some shaping," he added.

According to Culver's marketing department, sales of aerosol sprays were up 18% in 1986, while sales of nonaerosols were up 10%.

Hair coloring

According to A. C. Nielsen, hair color in 1986 was the second fastest-growing segment in the hair care category. Nielsen estimates that sales in 1986 were up 9% to $434 million.

In the hair color divisions at L'Oreal, Revlon and Clairol, sources said that the fastest-growing segment in all of hair color is what most manufacturers call the special effects category.

This segment includes the traditional special effect products like L'Oreal's Brush-On Soft Colors and Summer Sun, Clairol's Frost 'n Tip and Summer Blonde as well as the nontraditional special effects brands like Clairol's Pazazz, Sassoon's Colorific and Revlon's Fanciful Roux.

L'Oreal's marketing department said that the special effects segment grew by 19% in dollar sales in 1986 to a $34 million category. Unit growth, the department said, was up 15%.

John Hayes, director of marketing for Clairol's hair and skin care lines, said that Clairol's research indicates that the unit sales of the traditional special effects segment grew by 18% in 1986, but unit sales of the nontraditional temporary rinse-in brands like Pazazz, Colorific and Roux grew by a whopping 183%.

Lowell Harper, Director of Marketing for Revlon's Professional Hair Care Division, said women are using special effect products to help them "accessorize their hair." The trend is to use temporary hair color "to have fun and to enhance one's looks." Traditionally, hair coloring products have been associated with older women who use them to conceal gray hair.

Salon trends

Hair stylists said they see the same trends in their salon business. More and more younger women are coming in to ask for hair coloring treatments.

"They don't want to cover gray," said New Jersey stylist Cathy Walgus-Meyer of Nutley's La Chic Hair Designs. "They want to improve their overall looks by enhancing the natural highlights that are hidden in their hair. They are also realizing that highlighting their hair can help to condition it."

Hair color dollar sales by retail segment

	1984	1985	1986
Drug stores	58.3%	57.6%	58.9%
Mass merchandisers	22.6	22.5	20.6
Food stores	19.1	19.9	20.4

Source: Nielsen Marketing Research

Merchandising strategies

Retailers said they see the same phenomenon in their stores. Many of the major chain drug stores are already changing how they merchandise the special effects category.

"We're taking it off the bottom shelf," said one buyer for a southern-based chain, "and giving it its own planogramed segment at eye level."

"We used to merchandise the segment as part of the brand family: All the Clairol special effects brands with the rest of the Clairol hair colors, all of L'Oreal's with the permanent and temporary hair colors," said another buyer.

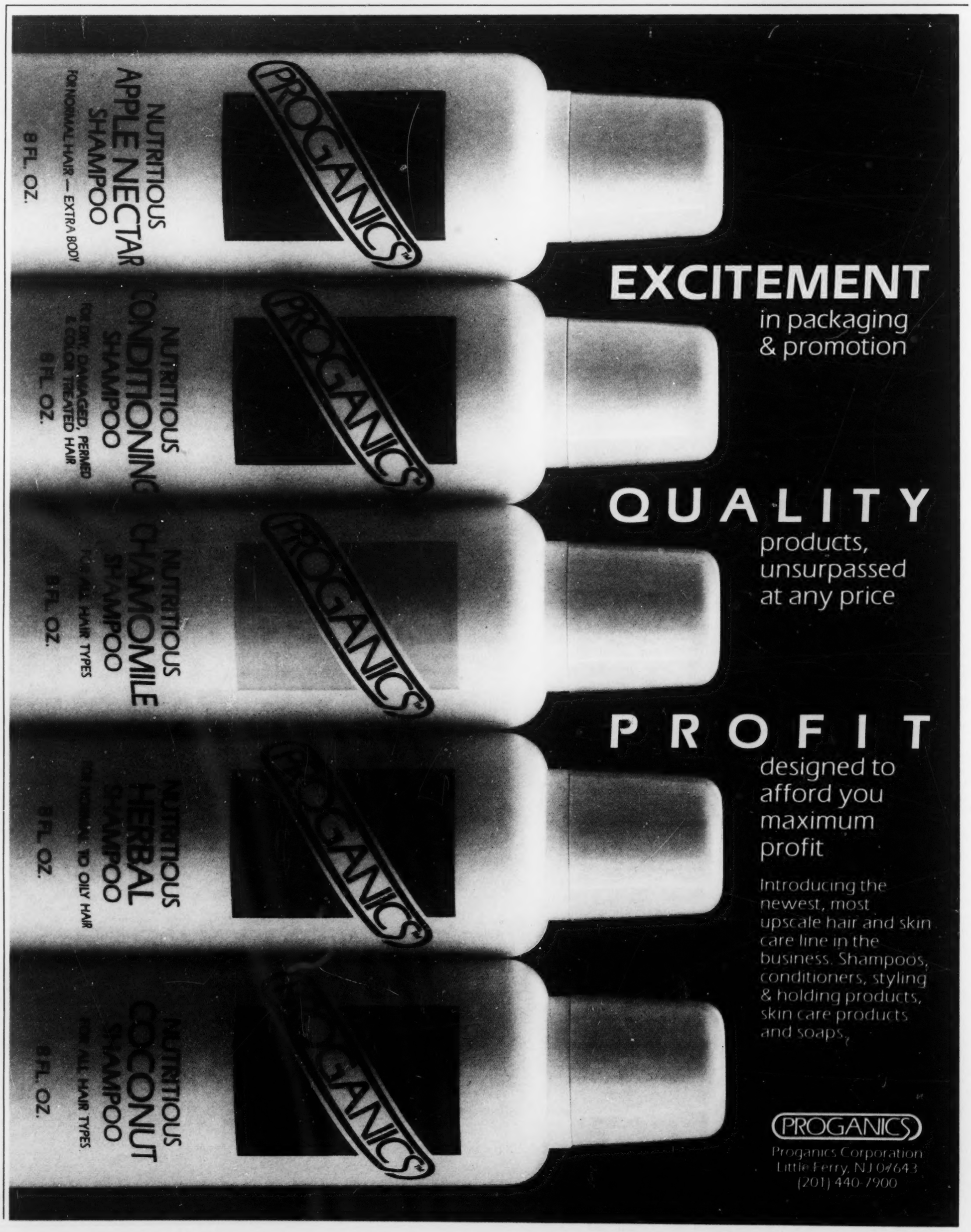
"Now we're giving the segment its own section in the hair-care planogram. It's the same strategy we used with the mousses and the styling gels when we saw the growth in those segments and realized the potential for add-on sales," the buyer added.

Retailers said they are seeing the strongest sales with Revlon Roux Fanci-full and with Clairol's Pazazz. Zazu, which is not merchandised in the hair coloring section but in a planogram in the cosmetic section, is still having mixed results.

Top hair color brands by unit sales
(food, drug and mass merchandisers)

Brand	Units
Nice & Easy (Clairol)	15.5%
Preference (L'Oreal)	13.2
Loving Care Lotion (Clairol)	9.4
Excellence (L'Oreal)	5.2
Ultress (Clairol)	4.9
Miss Clairol Shampoo Formula (Clairol)	4.7
Loving Care Mousse (Clairol)	2.6
Avantage (L'Oreal)	2.4

Source: Manufacturer estimates based on Nielsen's November/December 1986 period


PROGANICS
NUTRITIOUS APPLE NECTAR SHAMPOO
FOR NORMAL HAIR — EXTRA BODY
8 FL. OZ.
NUTRITIOUS CONDITIONING SHAMPOO
FOR DRY, DAMAGED, PERMED & COLOR TREATED HAIR
8 FL. OZ.
NUTRITIOUS CHAMOMILE SHAMPOO
FOR ALL HAIR TYPES
8 FL. OZ.
NUTRITIOUS HERBAL SHAMPOO
FOR NORMAL TO OILY HAIR
8 FL. OZ.
NUTRITIOUS COCONUT SHAMPOO
FOR ALL HAIR TYPES
8 FL. OZ.
EXCITEMENT
in packaging & promotion
QUALITY
products, unsurpassed at any price
PROFIT
designed to afford you maximum profit
Introducing the newest, most upscale hair and skin care line in the business. Shampoos, conditioners, styling & holding products, skin care products and soaps.
PROGANICS
Proganics Corporation
Little Ferry, NJ 07643
(201) 440-7900

Chains promote bulbs to plug into high profits

Drug chains have turned light bulb departments into traffic and profit centers through aggressive promotions.

Chains such as Fay's, Walgreens and Osco advertise bulbs at least twice a month to compete with mass merchandisers, home centers and supermarkets, while making margins on sales of specialty bulbs, which often reside in expanded departments.

"Retailers are not getting the long markup on (bulbs) they did five 10 years ago, but it's still a good profit item," said Jim Wuest, Fay's general merchandise manager.

30%-50% margins generated

Chain buyers said the departments can generate margins of 30%-50% when shoppers pick up nightlights and decorative lights at everyday prices, after they have been lured by promotions of standard bulbs and soft whites, which may be sold as loss leaders.

Super D, for example, concentrates on promoting General Electric's three-way soft lights to counter the threat posed primarily by Wal-Mart, according to a source at Super D's parent, Malone & Hyde.

Super D last year typically featured monthly promotions, with emphasis on GE's 4-pack soft light at $2.59 in dump displays. They will be offered this year at $2.89, reflecting the 4% price hike that swept the industry, the source said.

But the price increase won't be reflected in all everyday items, to keep price points under $5. GE's 4-pack of Miser bulbs, for instance, will stay at $4.99 ($3.57 on promotion).

Super D plans to run seven different promotional bulb displays this year, including a repeat of a Reading Light promotion, which achieved brisk sales last year.

Walgreens' approach

Walgreens takes a different tack in promoting its GE assortment to maintain margins of 50% while staying competitive, according to a source. It promotes a variety of sku's to make margins on less advertised specialty bulbs, such as nightlights and decorative bulbs, the source said.

"They've learned not to just pound the soft-white 4-pack everyday. They maintain a good, healthy margin by promoting the total category," he said.

The chain runs three or four sku's per ad. It can make 35%-40% margins on ad of decorative bulbs, for example, which aren't being featured by its competitors.

Chain buyers said that sales of energy-saving bulbs have flattened with the waning of consumers' energy consciousness, and because standard bulbs are being offered at such low prices.

"It doesn't make sense to buy an energy-saving bulb when you can buy a 4-pack of soft whites so cheap," said Doug Gravening, senior vp and merchandise manager at Lewis Drug in South Dakota.

Lewis features 20 feet of a North American Philips planogram in its 40,000-square-foot stores, and sells the 4-pack at $1.19 to $1.49. Lewis saw strong demand when it introduced a 6-pack of ground-set lights last year from Toro, Gravening said.

Other chains' methods

Harco posted brisk department growth after moving to GTE-Sylvania recently and advertising about three times its traditional level, emphasizing soft whites, standards and chandelier bulbs, according to head buyer Russ McKee.

Snyder Drugs, promoting monthly, gets 50%-60% margins from the category with a 24-foot GE planogram that includes 4 feet of accessories. Snyder offers the 4-pack soft white at $1.49 to $1.59, against low-balling competitors Walgreens and Target, said buyer Roger Musil.

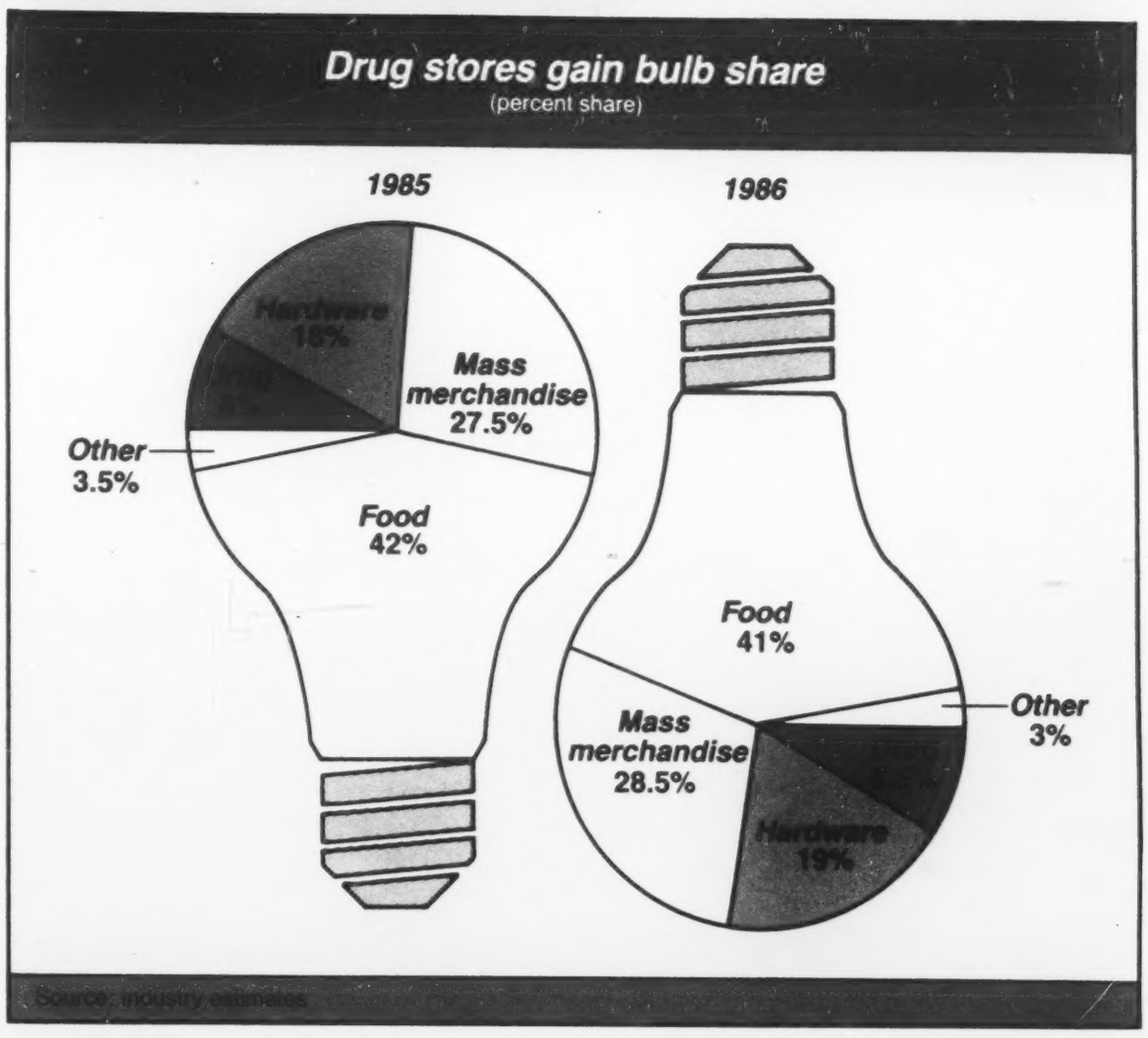
Super D and Perry Drug are among chains that plan to increase linear footage to meet demand. Super D needs to increase stores' inventory to meet demand between its weekly deliveries from its warehouse. It will double the 4-foot sections found in most of its smaller stores to 8 feet.

Perry has set up a prototype that expands its current 8-foot section to 12 feet, reflecting the demand the department has spurred, according to buyer Bob Heather.

Heather said he will be watching the impact of vendors' higher prices on such chains as K mart and Farmer Jack in setting Perry's prices this year. The chain in its coupon book last year promoted GE's Inside Frost, which other chains, including Fay's, use to hit a low-end price point and compete with private label. It can typically sell for 44 cents less on a 4-pack than a full-price brand.

Fay's also carries a private label, but might change part of the mix to GE's generic to help counter stiff competition from chains, including deep discounters, according to Wuest.

"The days when you could put them out at full list and have them sell like crazy are gone," Wuest observed.



Dart Drug Stores displays light bulbs differently, depending on the size of its stores. At the Greenbelt, Md., drug/home center store, Dart creates an electrical valley with fixtures and accessories on one side and extensive light bulb displays on the facing gondola. At a downtown business center store in Washington, D.C., Dart prices a limited assortment of 4-packs at $1.99 on sale. The store caters to lunchtime crowds, so small packages and limited space are the order of the day.

Vendors boost TV ad budgets

Vendors expect a blaze of television advertising to illuminate the category this year. General Electric, GTE-Sylvania and North American Philips will spend more than $40 million between them on TV, compared with about $3 million in 1981, according to industry sources.

They are also stepping up rebate, coupon and newspaper promotions in a battle that flared last year with the market entry of the Philips brand.

"This kind of spending in the long run is going to benefit all the major brands, by creating a higher level of visibility and awareness for what was close to being a commodity product," observed Bill LeComte, GTE's ad manager.

GE and Sylvania are responding forcefully to Philips' plan to continue in 1987 the stepped-up level of TV it paid for last year. "We intend to retain our share of voice," said Bill Flaherty, Philips 'market manager for drug channels. Philips spent about $7 million in the last quarter of 1986 on TV and tripled its annual TV budget. Flaherty said it gained one full market share point as a result, ending with a 20% share.

GE to boost TV budget

GE, which matched Philips in broadcast in 1986 (spending $13 million), has slated a major boost to its TV budget for this year, according to industry sources.

It also counts on the exposure the GE name receives when it advertises other products.

GE, which has a commanding market share of more than 55%, this year introduced tear-off coupons for redemption at checkout, and reintroduced on-pack mail-in rebates, putting them on soft whites and bug lights. "We have the strongest promotional calendar we've ever had," a GE source said.

GTE has hiked its TV budget 40%, with planned spring and fall flights, and has boosted its coupon and rebate program in newspaper freestanding inserts, LeComte said.

TRENDS

Shoppers willing to spend for high-end flashlights

Customers are willing to spend an extra dollar in a drug store for a premium flashlight, which is adding profits in chains' home lighting programs, drug buyers say.

Some chains are promoting the halogen and krypton bulb lights by Eveready and Duracell, while others promote low-end lines and carry $5-$15 premium items for customers' planned purchases.

The high-end lights such as Eveready's Halogen, Duracell's Durabeam and Rayovac's Workhorse have caused sales growth of 13%-14% in the flashlight market in recent years, which should continue, according to industry sources. It hit $280 million retail sales in 1986, manufacturers said.

"The growth is in the well-styled, well-designed flashlights, because people are looking for more quality," said Paul Garrity, president of Garrity Industries, whose lines are carried by chains including Walgreen, Eckerd, Revco and Thrifty.

Garrity said his business, led by sales of a four-sku rubber, waterproof Tuff Lite line (priced up to $12), is 100% above last year.

Doesn't include batteries

Lewis Drug's five-sku everyday flashlight assortment has the Durabeam and Halogen at under $6. "We run them without batteries included to keep the price down. It gives you a price point where there isn't too much resistance, if you're looking for a good flashlight," said Doug Gravening, senior vp and merchandise manager.

The lights are paired with batteries on an island display adjacent to the front-end checkstand. (Lewis also teams batteries and Rayovac lanterns in its sporting goods department, and clip strips disposable lights.)

Lewis has promoted Rayovac's Workhorse on an in-and-out basis, and low-end lights with coupon ads.

"We'll try to run two flashlights in a coupon book and charge vendors for the ad space. There seems to be a lot of street money out there," Gravening noted.

Eveready, Duracell and Rayovac batteries are cross-merchandised with cameras, sporting goods and toys, as well as flashlights, and produce "big numbers," he said. Lewis carefully monitors pricing at K mart and Target.

Eckerd goes for the impulse purchase by putting a GE light bulb display next to the racetrack by the front door at its Indian Rocks Beach, Fla., unit. The display is angled to face shoppers walking down the main aisle.

"Batteries have to be right on the number. It's like Starkist Tuna," Gravening observed.

Maxidrug's strategy

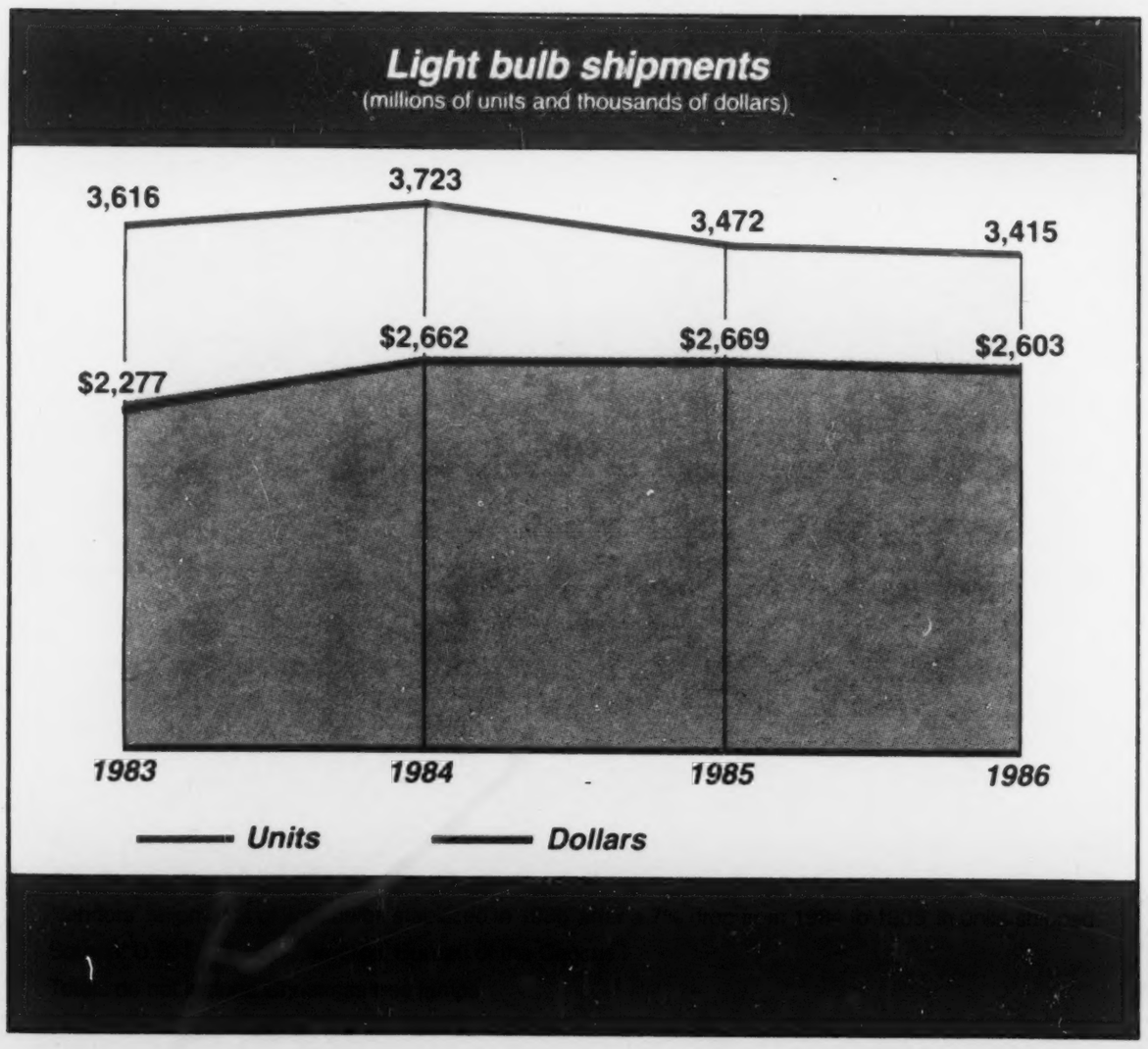
Meantime, deep discounter Maxidrug in Massachusetts promotes low-end lines at $2.99. Its 12-sku everyday assortment—in an 8-foot in-line display—includes the Halogen at $5.77. The premium lights have the same markup as the low end, allowing a better profit return, said Donna Anderson, a buyer with the Jean Coutu division.

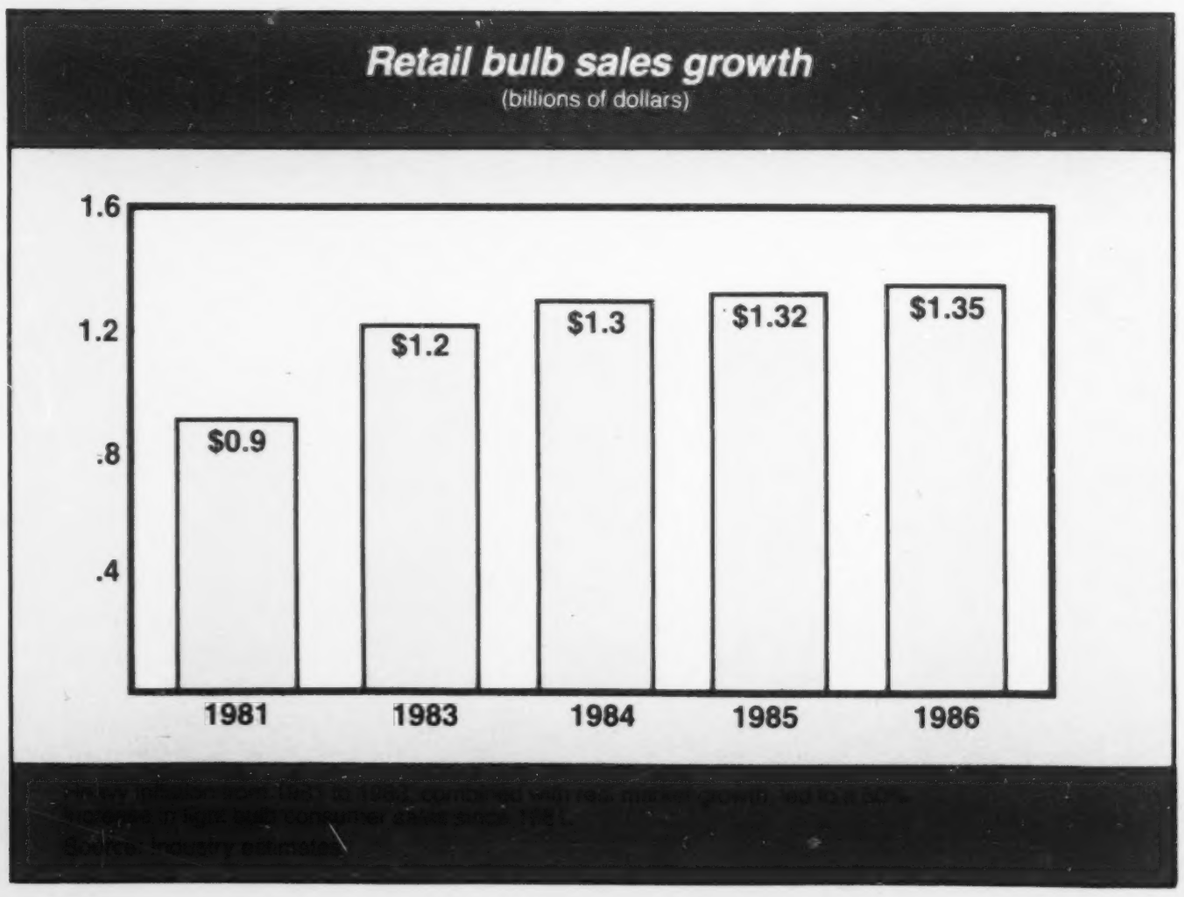
"We promote the budget lines to have a price the customer will come after. You can sell a lot more at $2.99 than at $9.99," said Anderson.

For its part, Begley carries the Halogen at $10.99 everyday and $7.99 on promotion, as part of an 11-sku assortment, said buyer Chuck Reeves.

Buyers said they have obtained mixed results in rechargeable lights, although rechargeable batteries are catching on as consumers realize how much they are spending to power their toys and "boom box" radios.

"We have tried the rechargeable lights and haven't been successful. I'm afraid the price is too high, and the customer isn't willing to accept them yet," said Harco head buyer Russ McKee.





INSIDE PHARMACY

Rising drug prices stir debate among experts

While the overall U.S. inflation rate dropped to a barely noticeable 1.9% last year, retail prescription drug prices climbed 8.6%, and manufacturer prices rose even faster.

What's more, 1986 was not a fluke. Manufacturer Rx drug prices have been climbing at least twice as fast as the Consumer Price Index during each of the past four years—a sharp reversal from the situation in the 1960s and early '70s, when pharmaceutical prices helped to hold down the nation's cost of living.

What's behind this disturbing and continuing climb in drug prices? To what extent are these increases attributable to stepped-up research and development spending by the industry? Why hasn't the influx of new, lower-priced generic drugs helped to hold down prices? Are manufacturers gouging the public, or are today's more advanced pharmaceuticals a better bargain than ever?

Those are some of the questions being asked now in Washington. Just last month, Rep. Henry Waxman (D-Calif.), chairman of the House Subcommittee on Health and the Environment, held full-dress Congressional hearings on the drug price issue, and there is talk on Capitol Hill of far-reaching legislation to address the problem.

One radical solution advanced by some: Scrap the current drug patent system in favor of a compulsory licensing scheme similar to the one credited with reducing prescription drug prices in Canada.

But are pharmaceutical prices really out of control? Here's what a cross-section of experts from industry, government, academia and the consumer movement have to say about the cost of prescription drugs today.

Price changes for selected top-selling Rx drugs:
Brand names vs. generics

Brand Name	Date	% price change	Brand Name	Date	% price change
Aldomet 250mg tab	1-1-85 1-1-86 1-1-87	 +10% +11	Methyldcpa 250mg	4/85-2/87	−27%
Aldoril 25 tab	1-1-85 1-1-86 1-1-87	 +11 +11	Methyldopa/HCTZ 25mg	2/86-2/87	−19
Ativan 1mg tab	1-11-85 6-14-85 11-13-86	 +11 +13	Lorazepam 1mg	12/85-12/86	−52
Catapres tab 0.1mg	1-28-85 2-3-86 2-9-87	 + 8 + 9	Clonidine HCL 0.1mg	5/86-2/87	−82
Dalmane 30mg	3-4-85 1-6-86 10-22-86	 + 9 + 8	Flurazepam 30mg	12/85-11/86	−28
Darvocet-N-100	6-3-85 6-19-86	 + 9	Propoxyphene-N-100/APAP	8/85-11/86	−19
Diabinese 250mg	5-1-84 6-1-86	 + 5	Chlorpropamide 250mg	10/84-12/86	−55
Inderal 40mg	1-2-85 1-2-86 10-1-86	 + 6 + 7	Propranolol 40mg	7/85-1/87	−78
Indocin 25mg	1-1-84 1-1-85 1-1-86 1-1-87	 + 8 +11 +11	Indomethacin 25mg	4/84-11/86	−60
Valium 5mg	3-4-85 1-6-86 10-20-86	 + 8 + 8	Diazepam 5mg	8/85-2/87	−83

Source: Revco D.S., Inc.
*These price changes were recorded for drugs purchased from pharmaceutical manufacturers by Revco during the periods listed.

Gerald Mossinghoff, Pharmaceutical Manufacturers Association president, contends that over a longer timeframe, prescription drugs have shown only modest increases and that modern pharmaceuticals are one of the few true health care bargains.

In recent years, the costs of providing health care, and the prices charged, have risen substantially. The same is true for prescription drugs. But modern prescription drugs are a very good value. Prescription drug prices have remained well below the overall Consumer Price Index ever since that index was set at 100 in 1967. And drug prices today are less than two-thirds the overall price index for medical care.

Prescription drugs and related products sold in retail pharmacies in 1985 were half of the 1960 level as a percentage of health care costs. In 1967, a typical worker had to work one hour and 20 minutes to pay for an average prescription; by 1985, it took only 63 minutes to pay for that prescription.

Modern medicines do not only save lives, prevent disease and cure illness; they also save billions of dollars each year by reducing the need for surgery, hospitalization and other more expensive forms of therapy. In its first 10 years, the anti-ulcer drug Tagamet saved $4 billion in the United States alone.

Research and development are the hallmarks of the PMA member companies. Their investment in R & D continues to double every five years. Moreover, the industry is investing an increasingly higher percentage of sales—currently 15%— to finance its growing investment in R & D. Measuring increases in R & D expenditures the same way we measure price increases, the "index" for R & D conducted by PMA companies now stands at over 1,000—three-and-one-half times the prescription drug CPI.

The period of time during which this enormous investment in R & D can be recovered through sales revenues is being dramatically compressed due to a number of converging forces. Foremost is the unprecedented surge in competition from generic products as soon as the patent on the pioneer drug expires.

Other major forces include the intense competition within the research-based pharmaceutical industry to develop and market new patented drugs, increasing delays in the approval of new drugs, and increasing foreign competition from developed countries that have targeted this industry and from newly industrialized countries that blatantly condone patent piracy.

Henry Waxman (D-Calif.), House health subcommittee chairman, a longtime critic of pharmaceutical industry pricing practices, held Congressional hearings two years ago into the abrupt rise in Rx drug costs. At that time, pharmaceutical manufacturers justified their steep price hikes by citing increased research and development costs. But since then manufacturer drug prices have continued to climb at an unprecedented rate, and Waxman has become "terribly skeptical" of the industry's R & D claims. During new hearings last month, Waxman released the results of a Congressional survey of the nation's 25 largest pharmaceutical manufacturers which, he said, suggest that continuing Rx price hikes are a result of "greed on a massive scale."

Based on data supplied by these manufacturers to the subcommittee, it's clear that the pharmaceutical industry has misled the American people. Most of the money generated by the recent enormous price increases is not going to fund R & D.

Between the years 1982 and 1986, drug price increases produced revenue gains of $4.7 billion. During the same period, R & D expenditures rose only $1.6 billion—or about a third of the revenue gains from price increases.

In short, the money was arriving in bucketloads, but was going to R & D in spoonfuls.

We need to know what's going on with the drug industry. Too many Americans depend on life-saving drugs for Congress to let prices skyrocket without a clear explanation from the companies involved. And, we must constantly remember that most Americans get drugs only one way—by paying for them out of their own pockets. Only a small fraction of the drugs consumed in the United States gets paid for by the government or by health insurance.

This particularly affects the elderly, most of whom live on fixed incomes. While they constitute 11% of the population in this country, they consume roughly 30% of the drugs prescribed each year.

H.C. Eastman, University of Toronto economist and an expert on the controversial Canadian compulsory licensing requirements for pharmaceuticals, contends that this approach does reduce Rx prices substantially—but at the expense of industry research and development.

In the 1960s, three major inquiries in Canada concluded that pharmaceutical prices were too high. The Kefauver hearings in the United States were reaching similar conclusions at about the same time.

All three studies recommended that the objective of lowering drug prices in Canada be addressed by modifying the Patent Act. This was done in 1969 by extending compulsory licensing to import patented pharmaceutical products. Licensees can import the active chemical ingredients and sell medicines in Canada in competition with patentees. Because of the wording of the Patent Act, the commissioner of patents has set royalty rates of 4% of the licensee's price when granting compulsory licenses, which leads to very low prices.

Compulsory licensees have naturally chosen to sell generic equivalents of the major selling drugs. This has reduced the prices of these multi-source drugs significantly and achieved savings for consumers and governments that I estimated at over $200 million out of total sales of $1.6 billion in 1983.

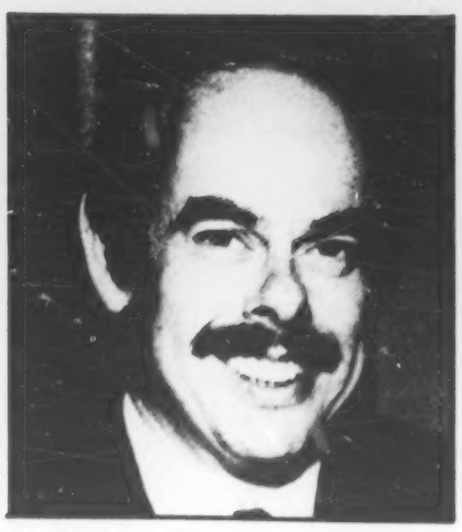
The policy has aroused considerable criticism from the patent holding sector of the pharmaceutical industry and of the governments of countries in which those firms are owned. Some firms have been seriously hurt by generic competition, though the industry as a whole remains very profitable. On the other hand, consumer interests, provincial governments (which pay 45% of the drug bill) and those who think standard patent protection is excessive are in favour.

Some Canadians also believe that the compulsory licensing policy has discouraged R & D spending in pharmaceuticals in Canada. Others simply think it improper to give pharmaceutical products weaker patent protection than is extended to other products.

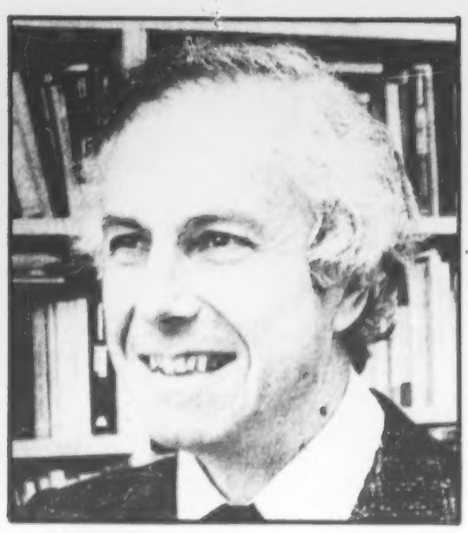
My own view is that standard patent terms are not a law of nature, but that patents are an instrument of industrial

Continued on page IP22

Gerald Mossinghoff
PMA president

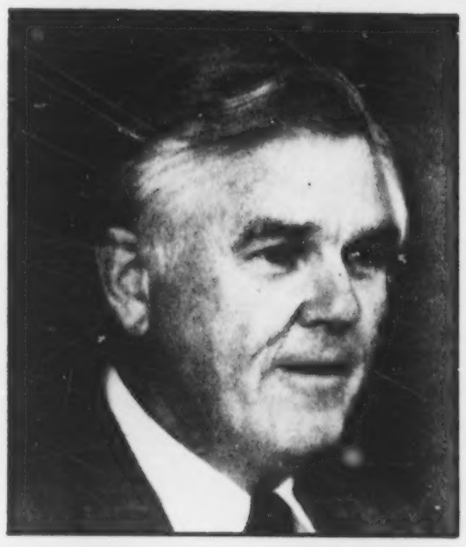


Henry Waxman
(D-Calif.)



H. C. Eastman
U. of Toronto economist

Experts air views on climbing script drug prices



Donald E. O'Neill, president Warner-Lambert

Continued from page IP21

policy that should be finely tuned to reach particular objectives when that is possible. To be more specific: In the case of pharmaceuticals, I believe that standard 17-year protection from the date of patent grant gives rise to excessive prices and costs unless offset by some other steps. I also think that unrestrained compulsory licensing at existing royalty rates would, if employed in all countries, probably elicit too little research. The continuation of the present regime in Canada might result in Canadians not bearing a sufficient share of worldwide R & D costs.

The government of Canada is now proposing to amend the compulsory licensing provisions of the Patent Act so that licenses will not be issued on a drug's first patent until the drug has been on the market for 10 years. A board is also to be established with the power to revoke this 10-year exemption from compulsory licenses when it judges the price of a patentee's drug to be excessive.

Warner-Lambert president Donald E. O'Neill questions the validity of comparing pharmaceutical prices with a "static" standard such as the Consumer Price Index. Indeed, he notes that some experts believe that the true cost of prescription medicines may actually be declining.

As a 37-year participant in the pharmaceutical business, I'm proud of our industry's performance. *Newsweek* has called our products "enchanted substances" which gave physicians their first true power to cure. The extension of life since 1950—more importantly, its improved quality—is a direct function of our research...research that provides value that cannot readily be measured.

In that sense, I don't believe it's statistically fair to focus on a three- to five-year period of pricing history. Nor do I believe it's fair to focus on the price of a single product without reviewing an entire line of hundreds of individual items. If we're going to compare drug prices with the CPI, let's look at the record since the index was created. Let's also look at the validity of using an index that's heavily weighted toward energy and transportation costs. If you subtract those two elements, I'm told that the CPI rose 4.7% last year. That was precisely our price increase rate. I'd also point out that the CPI is a static standard; it does not measure the impact of product or technology advances.

However, I'll leave those discussions to the economists and the more learned among us. I suspect they could validate the billions of dollars generated by lives saved, surgeries avoided and hospitalization shortened by the intervention of these enchanted substances.

Industry observers have suggested that, based on their model, drug prices are declining. Whether this is a cyclical phenomenon or the effects of the Drug Price Competition Act, I'll also leave that to the economists. The fact is that the fruits of pharmaceutical industry research, operating in a free market, have contributed importantly to everyone.

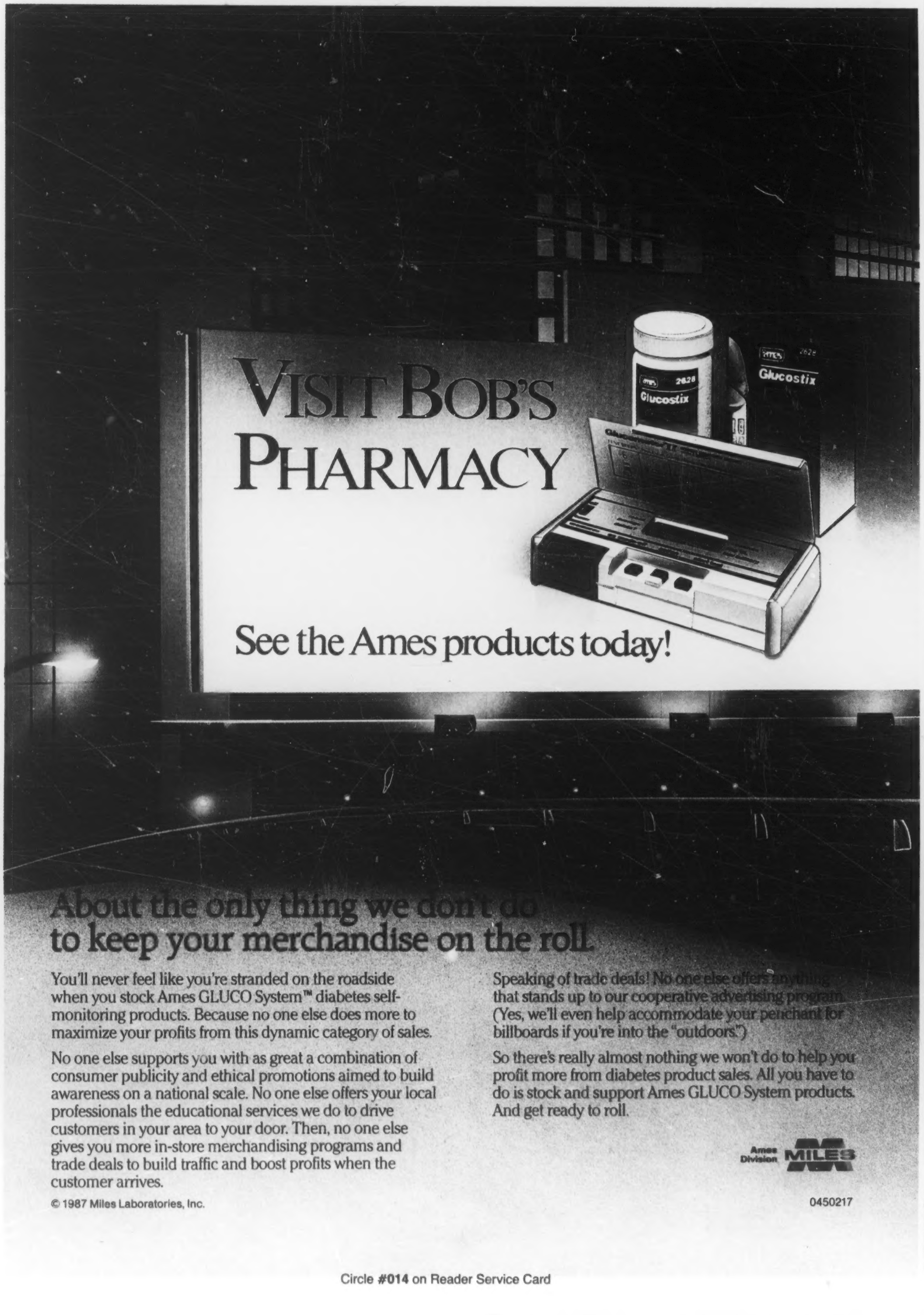
One frequently cited cause for the continued rise in Rx drug prices: slow-footed Food

Continued on page IP23

Comparison of price gains: CPI vs. Rx drugs
(PRODUCER PRICES)

	CPI (% price gain)	Rx drugs (% price gain)
1977	6.5	4.2
1978	7.7	5.2
1979	11.3	7.0
1980	13.5	8.8
1981	10.4	11.7
1982	6.1	11.1
1983	3.2	10.7
1984	4.3	9.3
1985	3.6	9.2
1986	1.9	8.7

Source: Bureau of Labor Statistics


VISIT BOB'S
PHARMACY
See the Ames products today!
Glucostix
Glucostix
About the only thing we don't do
to keep your merchandise on the roll.
You'll never feel like you're stranded on the roadside when you stock Ames GLUCO System™ diabetes self-monitoring products. Because no one else does more to maximize your profits from this dynamic category of sales.
No one else supports you with as great a combination of consumer publicity and ethical promotions aimed to build awareness on a national scale. No one else offers your local professionals the educational services we do to drive customers in your area to your door. Then, no one else gives you more in-store merchandising programs and trade deals to build traffic and boost profits when the customer arrives.
Speaking of trade deals! No one else offers anything that stands up to our cooperative advertising program. (Yes, we'll even help accommodate your penchant for billboards if you're into the "outdoors.")
So there's really almost nothing we won't do to help you profit more from diabetes product sales. All you have to do is stock and support Ames GLUCO System products. And get ready to roll.
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Rising prescription prices stir debate

Continued from page IP22

and Drug Administration implementation of the accelerated generic drug approval provisions in Rep. Henry Waxman's 1984 Drug Price Competition/Patent Term Restoration Act. Not so, according to deputy F.D.A. commissioner John Norris, who defends both the agency's track record in approving lower-priced generic versions and the safety of those generic products.

During the past 12 months, 673 ANDAs have been approved, most of them for generic versions of post-1962 drugs. By comparison, before enactment of the 1984 amendments, the Generic Drugs Division approved slightly more than half this number, an average of approximately 350 ANDAs annually.

Not only are we pleased with the quality of generic drug approvals, but we are also confident that the quality of data in applications that have received approval reflects the current technology in the sciences of biopharmaceutics and drug product production. For example, all of the generic versions of the post-1962 drugs in solid oral dosage form have been tested in human studies to determine bioequivalence with their brand name counterparts, while most pre-1962 generics were approved on the basis of *in vitro* or "test tube" data only.

Because of the dramatic impact of the new law on the pharmaceutical marketplace, interest in sufficiency of generic drugs in general and in the quality and equivalence of generic drugs in particular has intensified in the last three years. While we at F.D.A. do not have any preference for generic drugs over brand name drugs, or vice versa, it is difficult nonetheless for us to hear criticisms that question the safety and effectiveness of generic drugs without feeling concern for what these criticisms might imply about the scientific validity of the drug review process that allows them to be legally marketed.

We have yet to see a documented, verified case of a therapeutic failure caused by a bioequivalent generic product that has been approved by F.D.A. and evaluated by us as therapeutically equivalent.

According to Winthrop Pharmaceuticals president Harry Shoff, the recent rise in drug prices reflects in part soaring product liability costs and increased capital expenditures by the industry.

The escalating cost of research has been documented as a major factor which determines price increases, but there also are other elements to consider.

...The spiraling increase in the cost of insurance coverage is an example of a very real factor affecting the price of marketed products, including pharmaceuticals. In recent years, there has been a continuing general decline in the availability of appropriate product liability insurance coverage. As a result, Winthrop's insurance coverage decreased substantially for events occurring after July 1985. Thus, Winthrop is essentially self-insured for liability coverage. We had to set aside millions of dollars in reserve funds.

Capital costs are another factor. We have under way a multi-million dollar capital improvement program to modernize our research facilities for new drug discovery.

Harry Shoff, president Winthrop Pharmaceuticals

Comparison of price gains: CPI vs. retail Rx drugs

	CPI (% price gain)	Rx drugs (retail) (% price change)
1977	6.5	6.0
1978	7.7	7.8
1979	11.3	7.8
1980	13.5	9.2
1981	10.4	11.4
1982	6.1	11.7
1983	3.2	10.9
1984	4.3	9.6
1985	3.6	9.5
1986	1.9	8.6

Source: Bureau of Labor Statistics

The Writing on the Wall.

The appeal of generic pharmaceuticals is very simple. Generics provide a high quality alternative to brand name drugs, at highly competitive prices. And while brand name companies have been slow to realize the potential of generics, they're now racing to enter an industry that they previously criticized at every opportunity. They see the writing on the wall.

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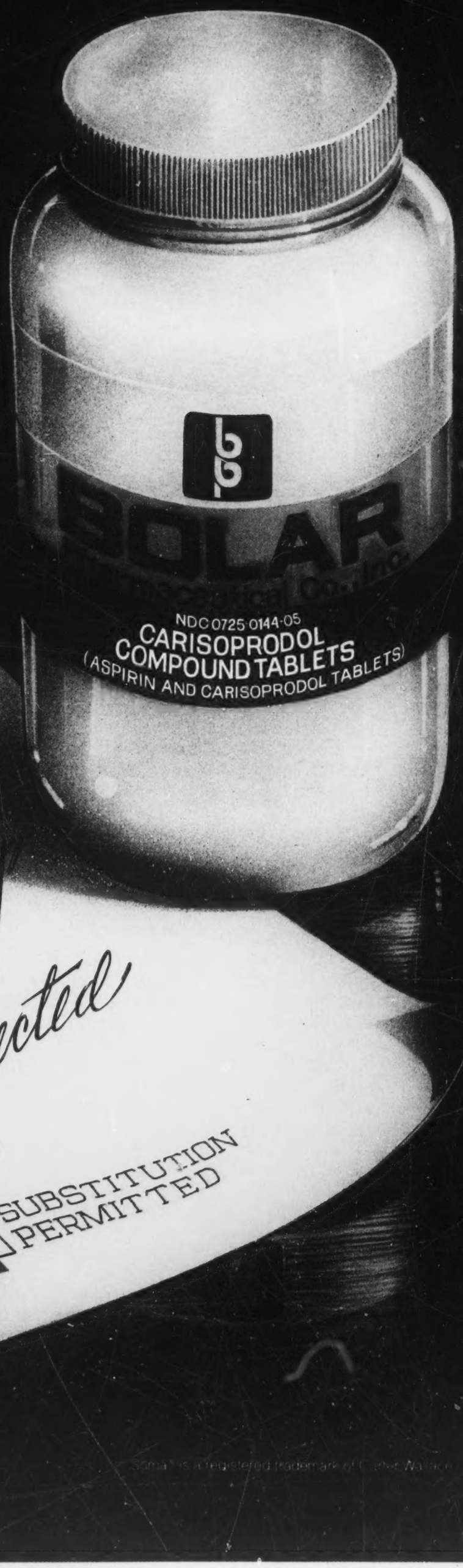

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INSIDE PHARMACY

Cardiovasculars are best sellers in '86 Rx drugs

Pharmacists dispensed more units of cardiovascular drugs in 1986 than of any other therapeutic drug category.

That was one key finding in *Drug Store News*' 1987 ranking of the top 100 Rx products. Additionally, the study revealed that, based on unit movement, the exact same percentage (41%) of prescription products moved up in position as moved down. There were 12 new entries to the top 100 listing, and six maintained their positions.

Cardiovascular drugs clinched first place, with 19% of the top 100 drugs dispensed in 1986 (based on number of units dispensed) falling into that category. Coming in a near second with a 13% share was the antibiotic category.

Other notable drug categories in the top 100 listing included analgesics, 9%; hormones and tranquilizers with an 8% share; antiarthritics and oral contraceptives, 7%; antiulcer drugs, 4%; potassium supplements and ophthalmics, 3%; and oral hypoglycemics and sedatives, 2%.

The winners in the cardiovascular category based on product movement included Tenormin tablets 50mg, ranked fifth this year, up four positions over last year; Lanoxin tablets 0.125mg and 0.25mg, ranked seventh and eighth, respectively, once again bucking readily available generics; and Procardia capsules 10mg, holding onto its 14th position for the second straight year.

There were two new entries to this year's cardiovascular list: Vasotec 5mg tablets, ranked 85th, and Carafate tablets 1 gm., ranked 87th.

Amoxil success story

The big success story among the antibiotics was Beecham's Amoxil products, also doing well in the face of severe generic competition.

Amoxil Suspension 250mg/5ml 100ml continues to climb up the ranking ladder, based on number of units, settling this year into the 15th slot of the top 100 Rx products, up six positions over last year's standings. Amoxil Suspension 125mg/5ml 100ml also exhibited strong gains by climbing into 25th position, up 12 positions over last year. And the story is much the same for Amoxil capsules 250mg. This year the product ranked No. 41 in the fastest moving prescription product listing, compared with No. 32 last year.

Top dollar volume

While the race for first place among therapeutic categories may have been close when based on the number of units dispensed, there was no contest when the ranking was based on dollar volume.

Over one-quarter (27%) of the top 100 Rx drugs based on dollar volume were in the cardiovascular drug category. The next closest category was the antiarthritics (12%), followed by analgesics (9%) and antibiotics (8%).

Among the outstanding cardiovascular performers based on dollar volume were Tenormin 50mg (ranked fifth), Procardia 10mg (ranked sixth), Cardizem tablets 60mg and 30mg (ranked 12th and 23rd, respectively) and Capoten tablets 25mg (ranked 16th).

Motrin still strong

Upjohn captured top honors for having the most products in the top 100 Rx listing based on unit movement. Among the company's winning products were Motrin, Halcion and Xanax, each placing at least two different strengths in the listing.

Despite increasing OTC ibuprofen competition, Upjohn's prescription ibuprofen, Motrin, continued to be strong in prescription product movement.

Motrin 600mg ranked 17th in the top 100 listing, up one position over last year, while Motrin 400mg ranked 33rd, slipping eight positions over 1986 rankings. Motrin 400mg was hurt the most in the ranking because of the availability of 200mg ibuprofen over-the-counter. Consumers can now take two OTC tablets to equal the 400mg dose available on prescription. However, it is not likely that the average consumer will take three tablets at one time; therefore the Motrin 600mg continues to do well in the prescription market.

Continued on page IP27

Significant upward product movement
(10 or more positions)

Name of product	1986 rank	1987 rank	Number of positions upward
Flexeril tabs 10mg	36	26	+10
Lopressor tabs 100mg	78	67	+11
Naprosyn tabs 500mg	56	45	+11
Seldane tabs 30mg	20	9	+11
Amoxil susp. 125mg/5ml 100ml	37	25	+12
Anaprox tabs 275mg	84	72	+12
Amoxil caps 500mg	83	70	+13
Ventolin inhaler refill	50	36	+14
Lo-ovral-28	86	68	+18
Ceclor Pulv 250mg	71	51	+20
Tylenol with cod. #4 tabs	66	46	+20
Provera tabs 10mg	72	49	+23
Captoten tabs 25mg	54	28	+26
Xanax tabs 0.25mg	60	34	+26
Cardizem tabs 30mg	76	48	+28
Maxide tabs	58	29	+29
Tagamet tabs 400mg	97	64	+33
Cardizem tabs 60mg	93	59	+34

Source: *Drug Store News* research

Significant downward product movement
(10 or more positions)

Name of product	1986 rank	1987 rank	Number of positions downward
K-Tabs 750mg	65	76	−11
Lasix tabs 20mg	55	66	−11
Monistat-7 vag w/app 45gm	31	42	−11
Tranxene caps 7.5mg	67	78	−11
Corgard tabs 40mg	73	88	−15
Micro K caps 8meq	35	50	−15
Lo-Ovral 21 pk.	47	63	−16
Percodan tabs	79	97	−18
Restoril caps 30mg	77	98	−21
Valium tabs 10mg	64	86	−22
Reglan tabs 10mg	59	82	−23
Aldomet tabs 250mg	16	40	−24
Ativan tabs 1mg	24	54	−30
Inderal tabs 20mg	27	58	−31
Diabinese tabs 250mg	48	83	−35
Dalmane caps 30mg	38	77	−39
Inderal tabs 40mg	22	62	−40
Inderal tabs 10mg	33	75	−42

Source: *Drug Store News* research

Therapeutic categories with highest percentage in Top 100 listing*

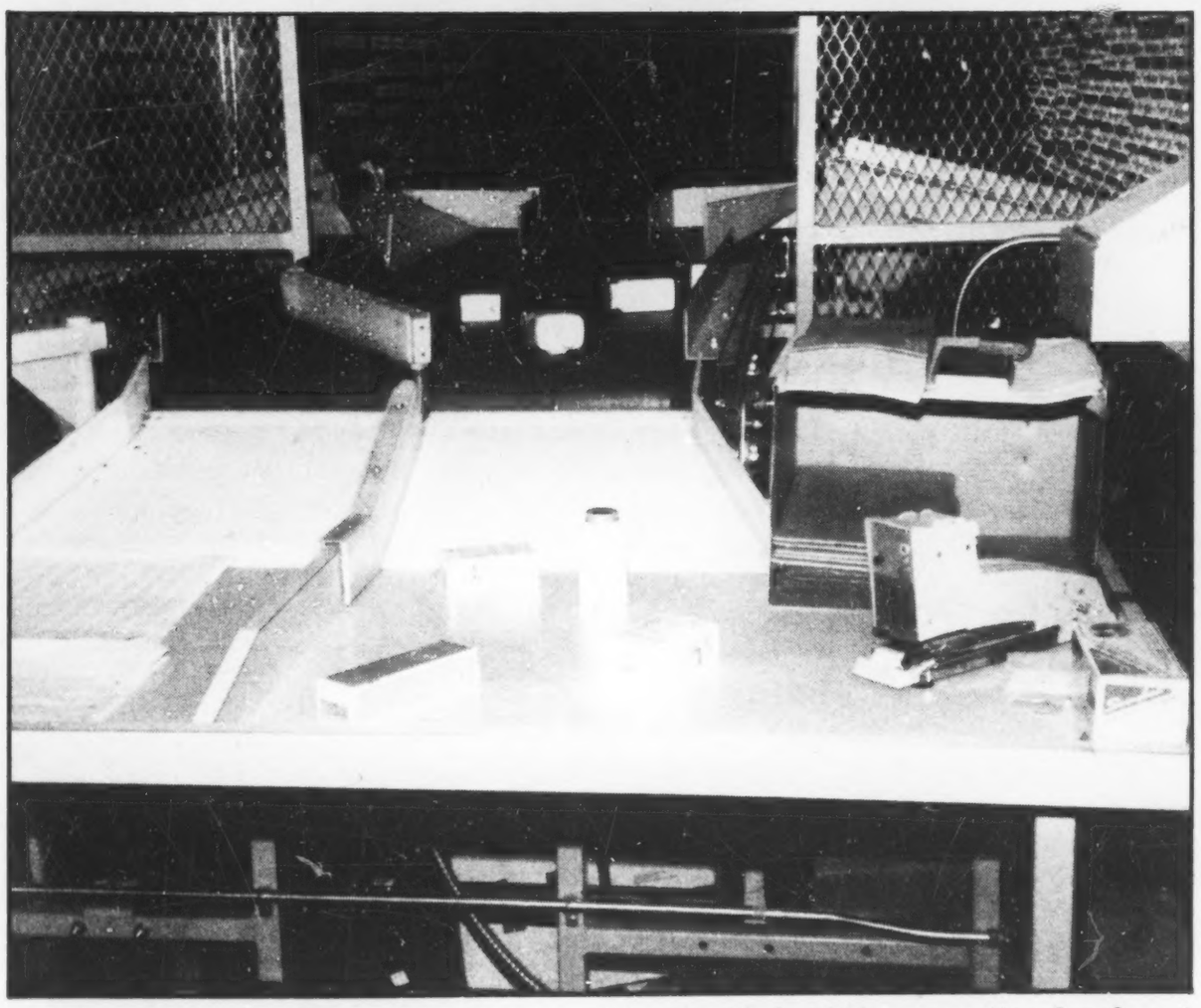
Category	% product top 100 list
Cardiovascular	19%
Antibiotics	13
Analgesics	9
Hormones	8
Tranquilizers	8
Antiarthritics	7
Birth Control	7
Antiulcer	4
Potassium	3
Ophthalmic	3
Oral hypoglycemics	2
Sedatives	2

*Based on number of units
Source: *Drug Store News* research

Companies with highest percentage of Rx products in Top 100 listing*

Company name	% products in Top 100 list
Upjohn	10%
Merck Sharpe & Dohme	7
Ayerst	5
Ortho	5
Parke Davis	4
Hoffman LaRoche	4
Wyeth	4
Beechman	4

*Based on number of units
Source: *Drug Store News* research



Cardiovascular drugs were prescribed most frequently in 1986, accounting for almost one script in five. Antibiotics were next in frequency, followed by analgesics, hormones and tranquilizers, antiarthritics and oral contraceptives. Twelve new products made the top 100 list, among them two triphasic birth control pills.

41 top Rx products move up in unit rank

Continued from page IP26

For the first time this year, a third strength of Motrin found its way to the top 100 listing: Motrin 800mg ranked 30th.

Upjohn also saw two of its tranquilizers make it to the top 100 Rx listing. Halcion tabs 0.5mg and 0.25mg ranked 80th and 56th, respectively, while Xanax 0.5mg and Xanax 0.25mg ranked 19th and 34th, respectively.

All four tranquilizer drugs ranked higher than last year, with Xanax 0.25mg climbing 26 positions over its 1986 ranking.

Other companies worth noting for having a fair number of products in the top 100 listing include: Merck Sharp & Dohme (7% of products in list), Ortho Pharmaceutical and Ayerst (5%), and Parke Davis, Hoffman La Roche, Wyeth and Beecham (4%).

Upward product movement

Forty-one percent of the products that appeared on last year's top 100 Rx product listing moved up in rank in this year's survey, based on number of units.

Highest among them was Cardizem tabs 60mg. Cardizem, which ranked No. 93 last year, moved up 34 positions, to settle in as the 59th fastest moving drug.

SKF's Tagamet tabs 400mg continued to climb despite strong competition from Glaxo's Zantac. Tagamet 400mg climbed 33 positions, staking its claim this year to the 64th spot on the fastest moving prescription list.

However, it should be noted that Tagamet 300mg still goes head to head with Zantac and still maintains a narrow lead in the rankings. That lead appears to be narrowing as Zantac continues to make gains in the ranking. Tagamet 300mg ranked fourth this year, down one notch over last year, while Zantac ranked sixth, up four positions over last year's ranking.

In total, 19 drugs increased their positions in the top 100 listing by 10 or more positions, with nine of them climbing 20 or more positions.

Downward movement

Forty-one drugs fell in their rankings in this year's survey based on number of units. A large percentage in this group succumbed to encroaching generic competition.

One of the heaviest-hit drugs was Ayerst's Inderal tablets. Inderal went off patent in 1984, and since then there have been introductions of generics by all the major generic companies. Although the product continued to be listed among the top 100 fastest moving prescription products, they have been losing ground.

Inderal tablets 10mg fell 42 positions to rank No. 75 this year, compared with No. 33 last year. A similar fate befell Inderal tablets 40mg, dropping 40 positions to rank 62nd among the top 100. And Inderal tablets 20mg also fell to an all-time low, shedding 31 positions to settle at No. 58, compared with its lofty 27th position in the standings last year.

Other hard-hit branded drugs among the fastest moving Rx products: Dalmane capsules 30mg, ranking 77th, down 39 positions; Diabinese tablets 250mg, ranked 83rd, down 35 positions; Wyeth's Ativan 1mg tablets, down 30 positions to rank this year as the 54th fastest moving Rx product; and Aldomet tablets 250mg, ranking No. 40 this year, down 24 positions over last year. Coincidentally, all went off patent in 1984.

Only one birth control pill was reported to be lower this year, Wyeth's Lo-ovral.

This year, 12 new products made the list of the fastest moving prescription products. Among them were two triphasic birth control pills, Ortho Novum 7/7/7-28 pk. and Triphasil-28, ranking 27th and 100th, respectively.

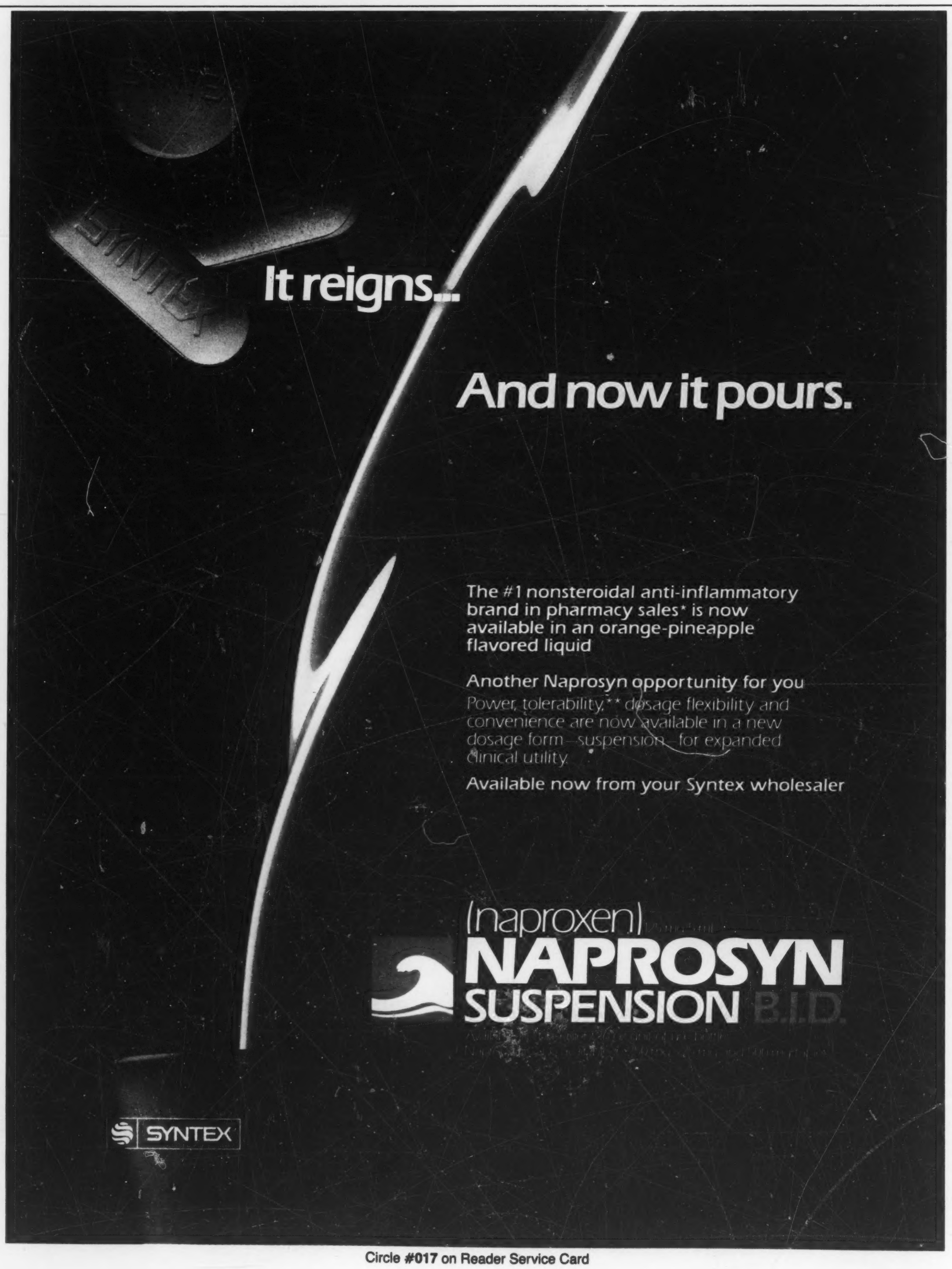
A new direction for insulin users was also evident from the data. This year's list saw the entry of Lo-dose U-100 Insulin Syringes, ranked No. 73, and Humlin N 100U human insulin (10ml), ranked No. 91.

The only drug to treat a condition known as intermittent claudication, Trental, ranked No. 93, and Duricef 500mg was the only new antibiotic to be added to the list, with a ranking of 92.

New products in top 100 Rx listing

Product name	Rank in top 100
Ortho Novum 7/7/7-28 pk.	27
Motrin tablets 800mg	30
Insulin Syr. Lo Dose U100	73
Micronase tabs 5mg	81
Vasotec 5mg tabs	85
Carafate tabs 1gm	87
Humulin N 100U 10ml	91
Duricef caps 500mg	92
Trental tabs 400mg	93
Alupent Syrup	94
Synthroid 0.15mg	96
Triphasil-28	100

Source: *Drug Store News* research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Gladson planograming: *Higher-potency antacids get more space—p. 24*

Trends: *Retailers enhance audio/video image—p. 11*

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DRUG STORE NEWS

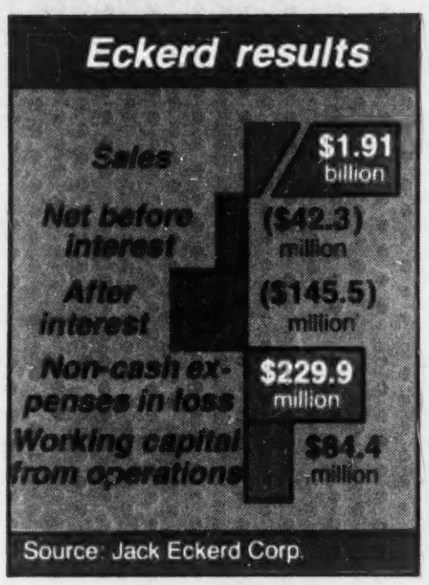
Vol. 9/No. 12 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. June 8, 1987

Eckerd earnings goals on target post-LBO

CLEARWATER, Fla. — Eckerd Corp. is meeting its earnings target nine months into its leveraged buyout, helped by strong prescription sales growth and cost cuts, the chain said in an annual report.

Gross profit gains offset soft sales to create enough cash flow to cover interest expenses, with a balance left for future principal repayments and capital investments. It reported performance for nine months following the April 30, 1986 LBO, for the period ended Jan. 31, the end of its rescheduled fiscal year.

See related story, page 3



Chairman and president Stewart Turley said the results also stem from "a noticeable improvement in morale throughout the company" that has built momentum since the buyout.

Earnings would have more than doubled from last year's comparable nine-month period, if the company had stayed public. Earnings would have been $132.3 million before inter-

See **Eckerd,** *page 33*

Longs tightens profit focus, will fit product mix to market

By Jim Frederick

WALNUT CREEK, Calif. — Longs Drug Stores will focus more sharply on profitability in the coming year, closing or selling some underperforming stores and remodeling others, Longs officers told shareholders at the company's annual meeting here May 19.

"We will continue our ongoing review of store operations, evaluating each store," said executive vp Dick Scott. "Changes will be made."

See related story, page 33

> 'Our overriding concern and objective is to preserve our decentralized way of doing things.'
>
> **—Bob Long**
> *president, Longs Drug Stores*

Those changes will include not only the sale or closing of some units, Scott noted, but also a stepped-up program of store remodeling and the closer adaptation of Longs' merchandise mix to individual markets, based on store-level input. The chain will also open 12 to 13 new stores this year, on top of 15 new units in fiscal 1987. As was the case last year, most of the new units will be in California, with Colorado also slated for a stronger Longs presence.

In addition, Longs will continue to shrink its store prototype to fit the site requirements of certain markets and lower development and expansion costs. Longs stores opened in the last five years are averaging 25,000 square feet (about 17,000 selling), but range in size from about 15,000 to 40,000 square feet.

Resurgent earnings

Longs' tighter profit focus comes at a time of resurgent earnings, with net income up for the second quarter in a row

See **Longs,** *page 33*

Fay's lays plans to bolster fiscal upswing

SYRACUSE, N.Y. — Fay's Drug Company's vigorous fourth-quarter rebound continued in the first quarter, although with somewhat less force.

Net earnings were only $81,000, or 1 cent a share, for the period ended April 30. In the same period last year, however, the company reported a loss of $1.1 million, or 8 cents a share.

Sales for the period increased to $110.6 million from $106.3 million a year earlier.

Henry A. Panasci Jr., chairman, president and ceo, noted that over the most recent four quarters, net income amounted to 38 cents a share, compared with 7 cents a share in the previous four quarters.

"Although results of the last four quarters are encouraging," Panasci told shareholders at the company's annual meeting here, "I'd be less than candid if I said that any member of Fay's management team or Board of Directors is satisfied. We realize that we are a long way from fulfilling our goals in terms of profitability."

Goals achievable

Panasci said, however, that the company's "momentum" and increasing rate of return on its "substantial investment" in stores and operational facilities had convinced him that the goals would be achieved. Operational facilities include a 298,000-square-foot addition to its distribution center opened last summer.

Panasci outlined other plans the company has for the new fiscal year, including:

- **A test of point-of-sale scanning.** The chain will begin its POS test in "a limited number of stores" this summer and fall. Daniel O'Leary, vp-finance and cfo, told *Drug Store News* that the company was looking at a number of systems, but none had been selected yet.
- **The addition of advertising vehicles.** Panasci would not

See **Fay's,** *page 34*

McKesson shortens its report

SAN FRANCISCO — McKesson will apparently be the first corporation to issue a shortened annual report sanctioned by the SEC.

The new "summary report" will allow McKesson to produce a more readable and informative annual message to shareholders and cut its costs by 25%, according to Marvin Krasnansky, vp-corporate relations.

This year's version, due to hit the streets June 10, will be 23 pages, about half the traditional size, with the exclusion of two pages of consolidated financial data and 10 other pages of financial "notes." Most shareholders don't read or understand this information anyway, a McKesson spokeswoman said. "We've even had some of our financial analysts tell us they don't read all this stuff," she added.

Shareholders will now

See **McKesson,** *page 33*

LATE NEWS

- PONTIAC, Mich. — Perry Drug Stores reported a $4.8 million net loss in the second quarter ended April 30, compared with $1.1 million earnings a year earlier. Sales rose from $147 million to $167 million. The company said drug stores had a weak Easter, and auto parts sales were soft.
- ST. LOUIS — Medicare-Glaser Corp. reported $653,000 in net income for the year ended March 31, following last year's loss of $623,000. Sales for the year increased to $93.5 million from $85.5 million.
- TROY, Mich. — Pay Less Drug Stores NW will more than double in size and be a 500-unit drug chain by 1991, K mart chairman Bernard Fauber told shareholders at the company's annual meeting here May 26. Fauber predicted the Pay Less division "will soon become the most prominent super drug store chain on the West Coast."

SGC growth cut likely as Dart tenders shares

WOODBRIDGE, N.J. — A debt-burdened Supermarkets General Corp. faces a sharp cut to its capital growth program after a management buyout parried a takeover attempt by the Dart Group, in the view of some analysts.

Dart, meanwhile, added an estimated $40 million to its treasure chest by tendering to the buyout group a 4.9% stake it had used to launch its takeover in March. It was selling shares it had purchased at prices in the mid to high 20s for $46.50 each, the value analysts put on the offer by the management group and Merrill Lynch Capital Partners.

SGC could be forced to halve its capital budget, while raising margins in some markets where it had been the price leader. It had forecast a $220 million capital budget for 1987, which was expected to support its drive into new markets in Virginia and North Carolina.

"There's no way they're going to do that," said Wood Gundy analyst Edward Comeau, regarding the spending level.

Cost curb plan needed

"They can pay $75 million to $125 million, if they're really pushing it," Comeau estimated.

See **SGC,** *page 34*

NEWS IN BRIEF

Rite Aid sets Condor software plans

SHIREMANSTOWN, Pa. — Rite Aid is limiting its use of Condor pharmacy software to SupeRx stores acquired recently in Florida and will follow that with installations in Gray Drug stores in that state.

Beyond that, Rite Aid has made no decision and announced no plans, executive vp Martin Grass told *Drug Store News* through a spokesman. He hasn't ruled out expanded use of Condor programs, but denied published accounts that Rite Aid has committed to replace SASI (Store Automated Systems Inc.) Rx software chainwide.

Father-son team produces Cartwheels

ATLANTA — Ike Anzaroot, the founder of Malone and Hyde's Ike's deep discount division, has returned to the retailing fray.

Anzaroot has teamed with his son, Gary, to open a deep discount store, named Cartwheels, in a Cobb County mall. The pair launched the venture last year, after Anzaroot senior retired from M&H.

The team plans to add a pharmacy to the unit's 28,000 square feet of selling space, which has taken the Ike's concept and expanded sections in cosmetics, general merchandise and food.

Gary Anzaroot said they plan to add more stores.

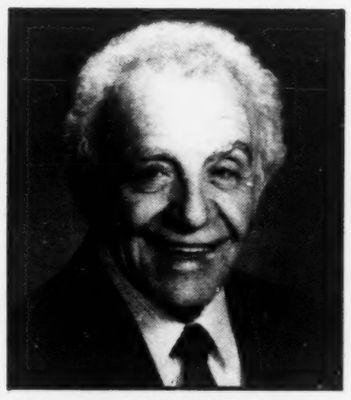
Interstate Cigar names Aaronson ceo

Lawrence C. Aaronson

WESTBURY, N.Y. — Interstate Cigar Co., the $200 million (annual sales) parent of nine store Austin Drugs, has named Lawrence C. Aaronson, 55, as president and ceo. He succeeds Sidney Spielfogel, who was elevated to chairman.

Aaronson had been consulting for Interstate the past seven years, and served earlier as vp-sales and business development at Abbott Laboratories consumer products division, and vp-sales and marketing at Revlon's Thayer Knomark division.

NACDS honors Reginald LaVerdiere



Reginald LaVerdiere

PALM BEACH, Fla. — Reginald LaVerdiere, vice chairman and ceo of LaVerdiere's Super Drug Stores, was given the 1987 NACDS Robert B. Begley Award at the association's annual meeting.

The award is presented each year to the member with "qualities of gentleness, humility and service as best personified by the late, former NACDS chairman," the trade group said.

LaVerdiere, an NACDS board member since 1982, is also on the advisory committee of Affiliated Drug Stores, serves on the editorial board of *The Apothecary* and is on the board of the Maine State Chamber of Commerce.

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Vol. 9, No. 12 June 8, 1987

Arbor named one of Mich. top 5 public companies

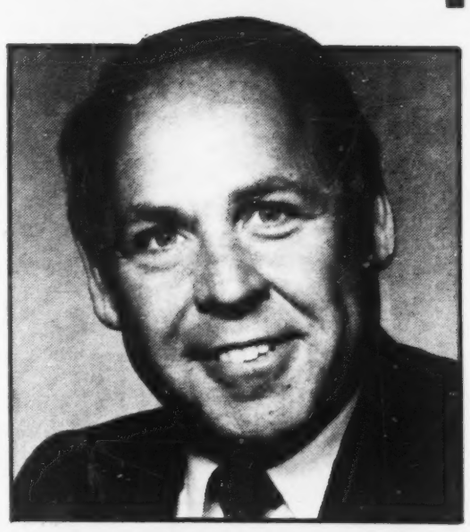
TROY, Mich. — Arbor Drugs was recently given a second reason to celebrate its first birthday as a public company.

The 73-store chain was one of five finalists competing for the title of Michigan Company of the Year. Ford Motor Co. won the contest, run by the *Detroit Free Press*. Final judging by six prominent executives and business school deans within the state followed nominations of 150 publicly held companies based in Michigan.

Arbor, a high-performance regional operator, reached the finals based on "financial performance, growth in Michigan employment, employee relations and corporate social responsibility," the newspaper wrote in its May 18 issue.

Doubled volume

Indeed, Arbor has more than doubled volume from $73.5 million in fiscal 1983 to $151.5 million in fiscal 1986.



Arbor chairman and president Eugene Applebaum has developed the chain into one of the strongest regionals.

During that period, net earnings more than tripled, from $1.4 million to $5.4 million. Since then, Arbor has absorbed 17 of 19 Sentry stores it acquired last year and made a great geographic leap by opening stores in Charlotte, N.C., and Myrtle Beach, S.C.

Chairman Eugene Applebaum said he expects to be operating 85 stores by the end of calendar 1987. Existing Arbor stores produce average sales per square foot of $339, far exceeding the industry average, and turn inventory 6.4 times.

The newspaper panel noted Arbor's growth as an employer in the state, from 1,000 workers in 1982 to 2,300 currently.

Corporate citizenship

Moreover, Arbor demonstrated its corporate citizenship with such programs as free colon cancer testing, contributing to Children's Hospital, helping to train resident pharmacists with Wayne State University and maintaining a Pharmacist Speakers Bureau to address community groups.

Other finalists were NBD Bancorp, the state's largest bank holding company; cereal maker Kellogg Co.; and J.P. Industries, which manufactures transportation components and plumbing products.

Chain promotions threatened by FTC co-op ad policy reversal

WASHINGTON — In a move certain to chill drug chain price promotions, the FTC opened the door for suppliers to withhold co-op ad allowances from retailers who advertise discount prices.

The Federal Trade Commission move abruptly discontinued an earlier enforcement policy that barred suppliers from this practice. At the same time, the commission rescinded a 1979 antitrust order that prevented a major auditing firm (the Advertising Checking Bureau) from designing or administering co-op ad programs that discriminate against price-cutting retailers.

Both that order and the 7-year-old FTC enforcement policy were originally adopted during the Carter Administration as part of a commission campaign to "stamp out the remaining vestiges of Fair Trade." At that time, FTCers justified the policy as necessary to prevent manufacturers from engaging in thinly veiled resale price maintenance (RPM) conspiracies against price-competitive retail chains.

'Not per se unlawful'

In reversing course late last month, the commission said that such restrictions on discount advertising may actually foster competition in the marketplace.

"The commission now concludes that price restrictions in cooperative advertising programs, standing alone, are not per se [automatically] unlawful" under the federal antitrust laws, the FTC said in a statement announcing the change.

"Such programs do not establish the existence of an agreement on price between a supplier and a dealer and do not necessarily affect the resale prices of dealers," the agency reasoned.

Like other "vertical" restraints of trade imposed by manufacturers on retailers, anti-discounter "cooperative advertising programs may provide competitive benefits, or they may be competitively neutral," the FTC concluded.

The decision to permit manufacturers and co-op ad program auditing firms to withhold rebates from retailers who discount may be only the first in a series of key shifts in FTC co-op advertising policy this year.

The commission is also reviewing other long-standing rules designed to prevent manufacturers from using co-op ad programs to discriminate against independent druggists and other small retailers.

Under the existing policy, manufacturer advertising rebates and other forms of promotional assistance must be made available to all competing retailers "on proportionately equal terms"—a rule adopted to prevent chains and other large retailers from securing discriminatory treatment from suppliers in violation of the Robinson-Patman anti-price discrimination law.

At least one top FTC official—commissioner Terry Calvani—has openly proposed relaxing that policy, while commission chairman Daniel Oliver is advocating outright repeal of Robinson-Patman.

Bureau requests relief

The decision permitting manufacturers to deny co-op ad reimbursement for discount price advertising resulted from a petition earlier this year by the Advertising Checking Bureau to rescind a 1979 order barring that company from administering such programs.

> *'The commission now concludes that price restrictions in cooperative advertising programs, standing alone, are not per se unlawful.'*
>
> **—Federal Trade Commission**

In requesting relief from the antitrust order, the bureau argued that manufacturers have a legitimate right to discourage "loss leader" advertising of their products, and that the restrictions placed ACB at a competitive disadvantage in relation to other auditing firms that are not prohibited from administering discriminatory co-op ad programs.

In granting that request, the FTC said, "There is no evidence that price restrictive cooperative advertising programs, standing alone, are sufficiently likely to be harmful that a flat ban. . .is appropriate."

Although restrictions on allowances for discount ads "may in some cases reduce a dealer's incentive to cut prices, the restraints do not prevent the dealer from selling at discount prices or even from advertising discount prices at the dealer's own expense," the FTC said.

"Moreover," the agency added, "price-restrictive cooperative advertising programs are likely to be procompetitive or at least competitively neutral in most cases."

TRENDS

Chains test possibilities of rentals

Video rentals can add to the total entertainment merchandising effort at chains.

While Rite Aid and Wellby are among drug chains with established rental programs, others are just beginning to explore the area.

Pay 'n Save, for instance, is currently testing a video rental program in two stores, which "seems to be working very well," according to Ron Fleisher, senior vp-merchandising.

Ads serve 2 stores

Fleisher said both test stores are in the same market, so the company can run ads in just one newspaper to promote the 99 cent tapes. Pay 'n Save bought the 4,000 per store tape selection, Fleisher said, and they also brought in some additional personnel to handle the rentals.

In both instances, the selection is merchandised with the blank and prerecorded audio/video store offering, and the rental process is handled at the photo counter area.

Genovese is also testing the video rental program in two of its stores, and is "really analyzing it," according to buyer Lenny Genovese.

Retailers seek fuller audio/video image

There is a visible move at drug chains to create more complete audio and video merchandising centers. Retailers told *Drug Store News* they are adding prerecorded audio and video cassettes to established assortments of blank tapes.

They are finding that even broad brand selections of blank tapes alone aren't enough to satisfy all their customers today.

At Eckerd, for instance, audio and video tapes are merchandised together, in both blank and prerecorded media. According to a company spokesman, the prerecorded tapes "are doing very well for us as an overall category."

The success of the prerecorded products, however, revolves around careful buying and constant updating, according to Eckerd. Although customers don't mind repurchasing the same blank tapes, prerecorded merchandise needs variety and change. To keep up with these needs, Eckerd said it rotates its inventory four to five times a year.

Tailoring to store

The only difficulty Eckerd said it has found in stocking the prerecorded merchandise is trying to tailor it to each individual store within the chain. Because of demographic differences, each store now orders the prerecorded cassettes separately, while a combined service effort between the corporate office and rack jobbers helps cover the stores periodically to see if there are any problems. Noted the company, "It is doing very well, but we're still trying to fine-tune better ways to manage the inventory."

Although Genovese does not yet have a regular section for its prerecorded videos, buyer Lenny Genovese said the chain will make room for the category the first of next year. Currently, "We're in the process of buying some promotions," such as the Classic Disney tapes, which retail at $14.95, he said.

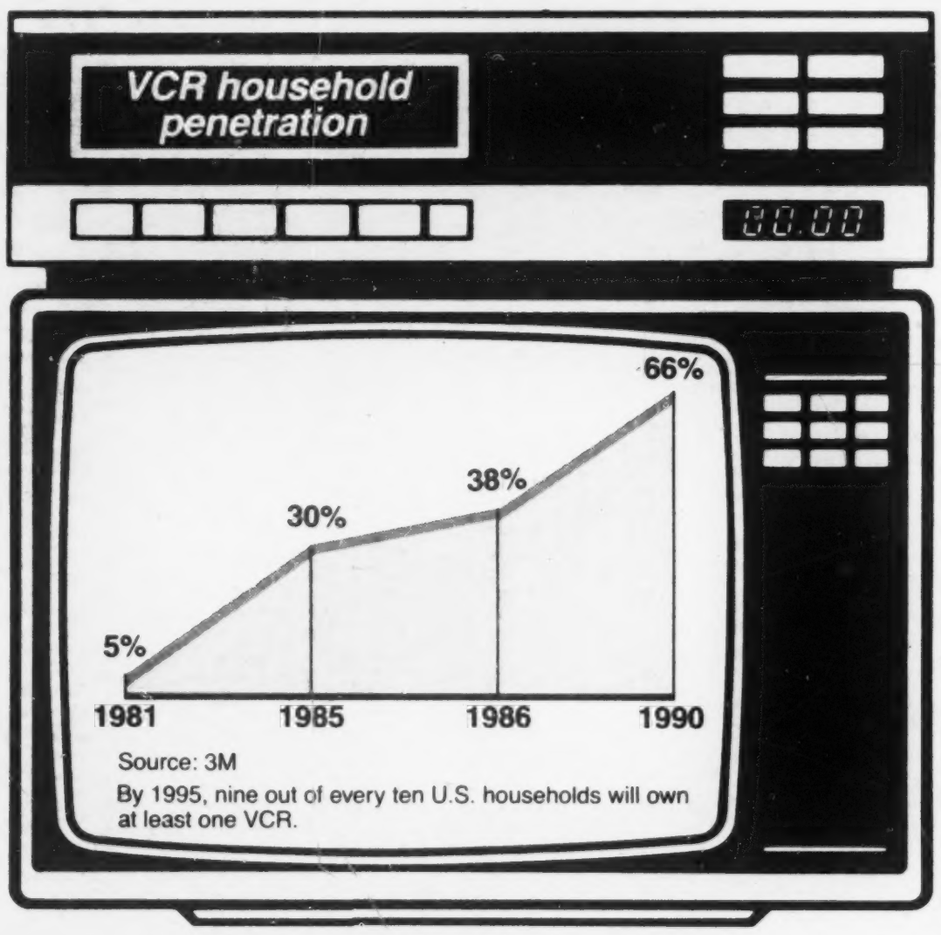
Marketed in a full-color 48-piece display area, the selection will soon be carried in all 83 stores, typically located in a high-traffic area up front and near the blank video selection, Genovese said.

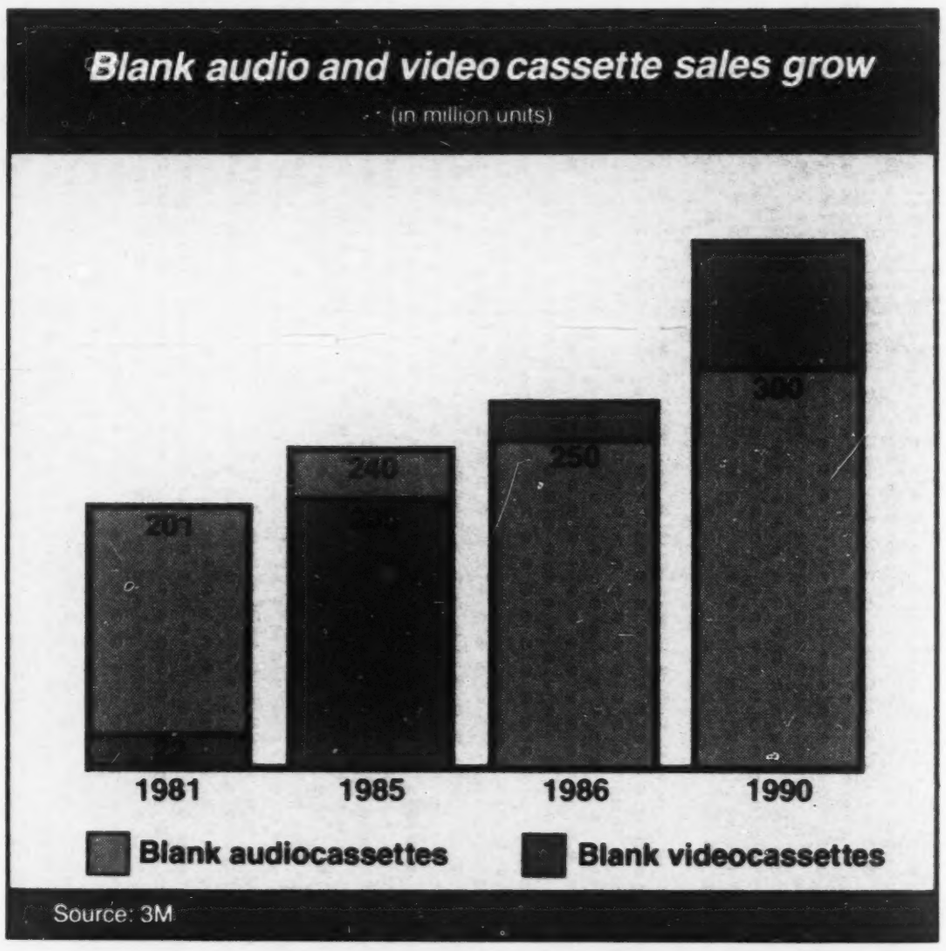
The chain is also carrying Lorimar's Shades of Love romance novels on videos, and some of the popular exercise tapes. Genovese said Peanuts videos were also considered by the chain, but since the timing coincided with the Disney offering, and because space is limited, the stores will only carry Disney.

Read-along books

Like the Disney videos, read-along books and audio cassettes for children have found their way into drug stores.

Continued on page 12





Battery sales charging ahead

Chain drug store buyers are bracing for another positive jolt from their battery programs.

With sales fueled by the growth of battery-operated devices and by the continuing war among the leading vendors, buyers have found they can make the profit connection using different approaches in assortment, display and promotion.

Vendors expect continued double-digit growth in retail sales, after they hit $2.5 billion in 1986.

Chains such as Rix Dunnington and Genovese build sales by promoting the major brands: Eveready, Duracell, Rayovac and Kodak. They feel private label lacks potential, since brand awareness among the leading vendors is so high because of their heavy advertising and promotions, buyers said.

Rix Dunnington decided to limit its assortment to Eveready, Duracell and Kodak, after trying second-tier brands that it almost had to give away due to lack of demand, said chain buyer Jay Weiner.

'Just growing and growing'

"Our battery sales are just growing and growing," said Weiner, who has picked up five Kodak sku's, but will avoid its newly available 9-volt lithium, since "the retail is out of whack for our stores."

Weiner said his promotion of Duracell's $1 rebate (with a C or D size two-pack at $1.79, before rebate) helped spur sales both of Duracell and Eveready's bonus packs, which Rix didn't promote.

To counter shrinkage, Rix always kept batteries behind or close to the front counter. Weiner said this year he wants to create a 4- to 8-foot in-line section, to make them self-service.

Private label

Not all chains are avoiding private label. Walgreens, for instance, regularly advertises a private label 12-pack.

While Genovese doesn't see a need for private label, it is able to hit a price point at 30% below branded and maintain its margin by buying Duracell on the gray market, according to buyer Lenny Genovese.

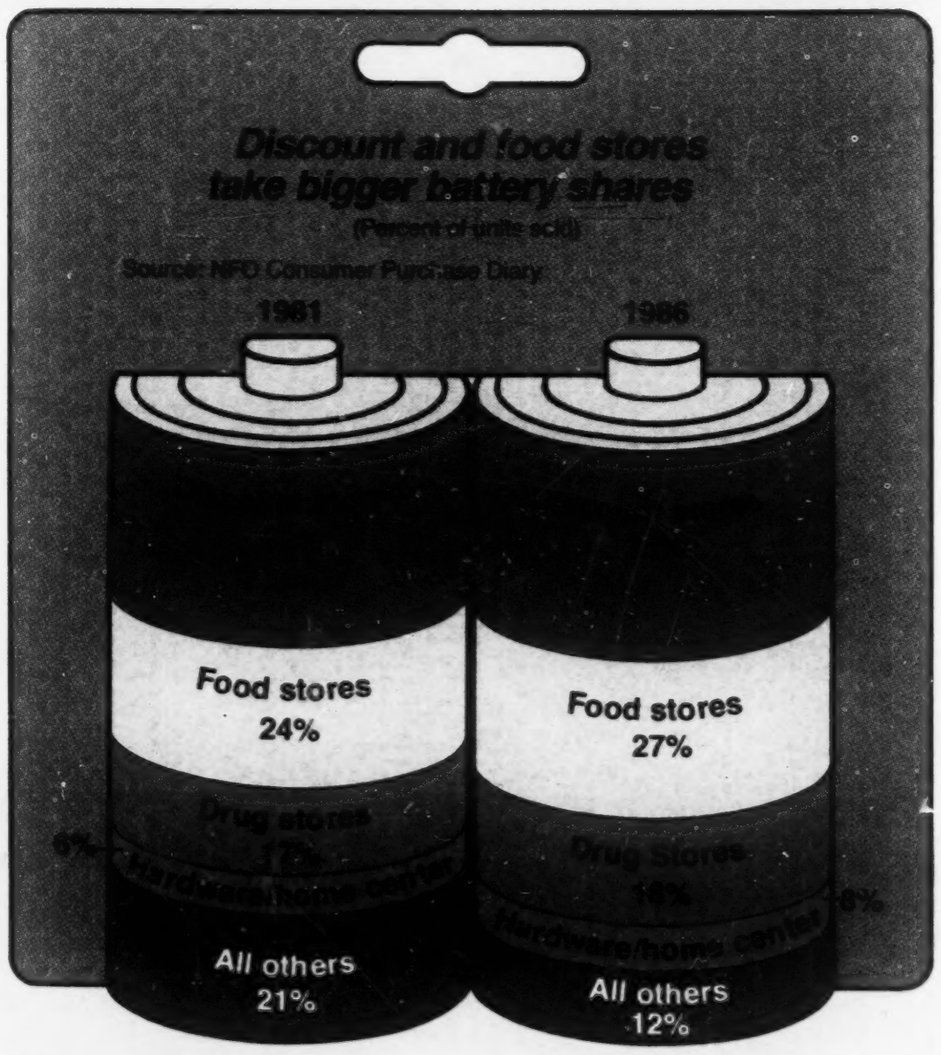
Last year, Genovese bought $800,000 in Duracell gray goods. The gray market Duracells, with Eveready and Kodak, make up its everyday 8- to 12-foot in-line display. It can sell a gray market double AA four-pack at $1.79, "which is Duracell (U.S.A.)'s sheet price," Genovese noted.

The chain bought an additional $800,000 in Duracell cells from Duracell U.S.A., after the vendor came in with a $1.50 rebate and heavy advertising that Genovese didn't want to miss. It put prepacks in each store for in-and-out promotions.

'Can't stop it'

"They don't like it, but they can't stop it," said Genovese, about the gray goods. "They understand the problem."

Fueling sales as well as profit dollars this year will be price hikes by Eveready and Duracell, which buyers said they will pass on to the consumer, adding 20 cents to 30 cents to the average ticket.



Video vending companies eye drug store business

Two video vending companies think they have an answer for retail drug operators who want the traffic benefits of video rentals without investing heavily in inventory or floor space.

Vend-a-video and the American Movie Machine both work mostly with grocery chains, but their services might also be applicable to drug stores.

Vend-a-video enables stores either to purchase machines or lease space to Vend-a-video, while reaping a percentage of the rental profits, according to Bruce Kociemba, vp-marketing and sales for the company. Kociemba said a retailer can either run its own operation or work with Vend-a-video and a third-party video supplier. In both cases, Kociemba said his company takes care of the maintenance of the machine and the rotation of the inventory.

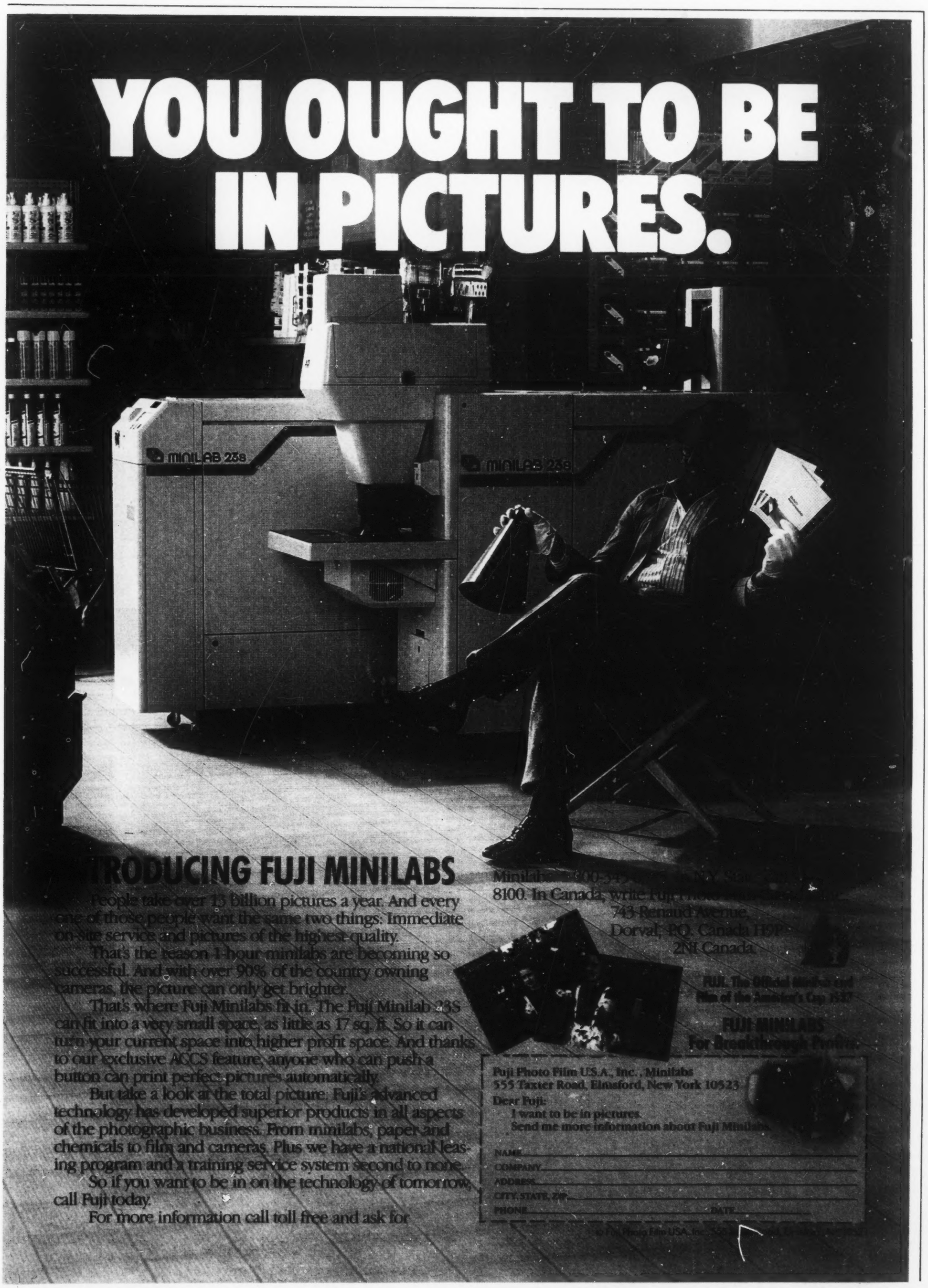
The Movie Machine Corp., offering the American Movie Machine, is currently discussing its system with several drug chains. Its main target is the grocery industry.

Working on a similar computerized structure, the Movie Machine also enables customers to rent videos without the help of store personnel. Unlike the Vend-a-video, where only a portion of the movie boxes are shown on display outside the machine, the Movie Machine allows customers to see all the selections and pick up and read story descriptions and star listings.

Because of the relative newness of the video vending machines, the drug store industry is currently taking a cautious approach.

"I think they need more developing," noted Charles Friedman, buyer for Associated Chain Drug Stores. Friedman, who said he saw several models earlier this year, said if the stocking and running of the machines can be worked out sufficiently, then "it might be a money saver."

Lenny Genovese, buyer for Genovese Drugs, said the chain "tested them (similar machines) before, and there really weren't enough titles." He said they are studying the new machines, however.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Retailers broaden audio/video image

(Continued from page 11)

Although he is not prepared to run the read-along books all the time, buyer Genovese said he is looking at a few of the programs. One concern with the read-alongs, he said is finding the manufacturer with the right titles. "You have to be very selective."

These cassettes could be merchandised in either the audio/video section or in the toy area, noted Genovese.

Buyer Charles Friedman, of Associated Chain Drug Stores, agreed that the read-along books and cassettes could "very well develop for children," and, he noted, the costs keep coming down.

Prerecorded audio cassettes—typically self-help, language and books on tape—are also finding appeal with the age 18 and older crowd, according to drug stores and vendors.

"We are looking at a major expansion in the drug industry" with the prerecorded tapes, especially since the public has already become familiar with the product through bookstore distribution, explained Phil Levin, executive vp with Metacom Inc., an audio publishing company.

Levin said most of the drug stores his firm deals with turn the merchandise four to six times a year on a base of 75 units. Seasonal promotions help move the $3.98 to $9.98 merchandise through the stores.

During baseball's spring fever, old radio stints such as the Who's on First Abbott and Costello monologue are promoted.

Blank tapes integral

Blank audio and video cassettes are still an integral part of drug stores, many of whom said they try to keep a varied selection of the major brands.

Genovese handles 8-12 feet of blank audio and videotapes, while Pay 'n Save does "an extensive program in blank media, using all brand names in both audio and video," according to Ron Fleisher, senior vp-merchandising.

The entire Pay 'n Save audio and video selection is merchandised in one location, taking 20-24 feet. Although Fleisher said the chain is selling some prerecorded merchandise, the "real scores for us have been in the blank videotapes."

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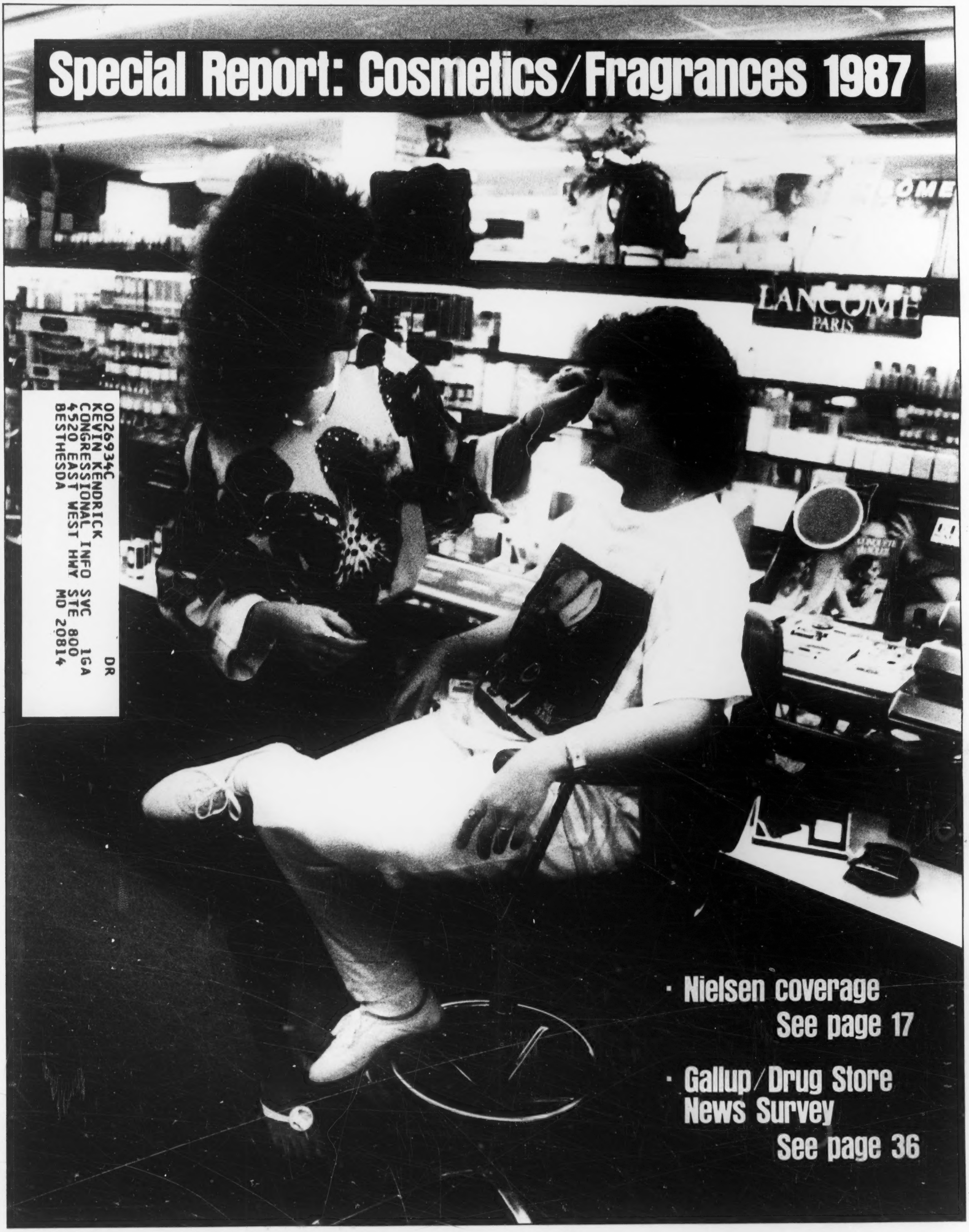
DRUG STORE NEWS

Vol. 9/No. 13 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. June 22, 1987

Special Report: Cosmetics/Fragrances 1987



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Marketing drives Genovese home health push

MELVILLE, N.Y. — Genovese is adopting a newly aggressive marketing posture for its 3-year-old home health care effort.

The 85-store regional based here has begun, during the past two months, to commit regular chainwide flier and biweekly newspaper ad space to its Gen-Care Health Network. That effort combines with informational brochures and reference product catalogs at each prescription counter to drive pharmacist recommendations.

An 800 telephone number, to be added soon, will enable customers to direct order.

Ad generated results

The expanded effort is too new to indicate long-term performance. But Raymond J. Rescildo, vp and director of professional relations, said one recent ad generated 35 recommendations for home health care products.

Each store devotes 24 to 36 running feet to such items as walkers and incontinent supplies. Pharmacists are also trained to instruct how to use most diabetic supplies, including glucometers, which each store also carries. But durable medical equipment, clinical products and ostomy supplies are housed in a single hub location in Astoria, Queens, N.Y. That is a 1,000-square-foot sectioned area within a 12,000-square-foot Genovese store, plus about 5,000 square feet of basement space used as a product storage, shipping and transfer point.

MARKETING MOVES

Ray Rescildo

From this site, two company-owned trucks deliver home health care products to the stores most convenient for customers or to their homes. A third truck will be added soon. Small packages are often shipped through United Parcel Service daily. A second hub may be developed as the business grows, Rescildo said.

Meantime, the Astoria site has sold "quite a bit of exercise bikes, treadmills and other sporting goods," said Rescildo. "Young people come in for their parents, then remember what they've seen."

'A natural area'

But that's gravy. To Rescildo, "People have to talk to a health care professional when they need home health care products. It's a natural area for a pharmacist to be in. A pharmacist is the only health care professional customers can go to anytime without an appointment."

He said Genovese is committed to the effort. Periodic pharmacist training comes from several sources: vendors, continuing education lessons, twice-annual two-day-long mass pharmacist meetings, and constant rounds made by three pharmacy supervisors and a computer systems manager.

Slow-paying business

With its buildup of home health care, Genovese joins the relatively small but growing ranks of drug chains courting this notoriously slow-paying business. On top of that, said Rescildo, cost containment efforts by government and insurance carriers are drying up the more lucrative rental business.

"We'd been running 35%-40% rental, but the trend is toward purchases after a maximum two months rental," Rescildo said.

Still, he added, "We're a health care provider. We just need the initial cash flow to get the business going. Then we can live with the payment schedules we know to be part of the business."

In one cost-cutting move, Genovese eliminated product catalogs it used to distribute to potential customers in favor of single reference copies.

NEWS IN BRIEF

Imasco projects Peoples will be in black

MONTREAL — Imasco Limited's management is telling shareholders in the company's just issued 1987 annual report that Peoples Drug is expected to contribute to Imasco's earnings during the 1988 fiscal year.

Paul Pare, chairman of Imasco, and Purdy Crawford, president, said they are "confident of the value of Peoples' assets and are committed to returning the company to profitability."

Peoples had an operating loss in fiscal 1987 of $32 million (Canadian dollars) compared to a profit of $46 million in fiscal 1986.

Imasco's other drug store chain, Shoppers Drug Mart of Canada, generated $46.9 million operating earnings (Canadian dollars) in fiscal 1987, up about 1% over fiscal 1986.

Jeff Fantle resigns from Peoples

ALEXANDRIA, Va. — Jeff Fantle, executive vp of store operations for Peoples Drug Stores, has resigned "to pursue other opportunities." Fantle, who had been with Peoples for approximately 16 years, has been in his current position the past year. Prior to that, he had been president of the Lane division in Cleveland for four years.

Dave Eisenberg, senior executive vp and coo of Peoples Drug, said Fantle "would be missed." Eisenberg also said Peoples is currently looking to see if they can fill Fantle's position "internally."

There was an unconfirmed report that Jeff Fantle may go into partnership with his father, Sheldon "Bud" Fantle. Bud Fantle had been been chairman of Peoples Drug until his resignation six months ago.

Barry Krelitz receives pharmacy award

MINNEAPOLIS — Barry M. Krelitz, president and ceo of Krelitz Industries, the upper Midwest wholesaler of drugs and medical, surgical and laboratory supplies, has received the 1987 Distinguished Pharmacist Award from the College of Pharmacy Alumni Association of the University of Minnesota.

One of 14 who have received the award since its inception, Krelitz urged a full commitment to "maximizing the professional and personal opportunities that are presented to each of us."

Ike's slated to get pharmacies

MEMPHIS — Malone and Hyde Inc., owner of the Super D drug chain, said it will install pharmacies in its Ike's deep discount stores. With a full line of brand name and generic drugs at deep discount prices, the pharmacies are scheduled to open in September.

Ike's has two units in this city and a third under construction and recently penetrated Nashville with a store that houses the first Ike's pharmacy.

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Vol. 9, No. 13 June 22, 1987

Revco revamps management

TWINSBURG, Ohio — Continuing an ongoing realignment in top- and middle-level management, Revco D.S. has added several new faces in merchandising, finance, management information services and purchasing, while shifting the roles of other decision makers.

The shakeup is part of a larger effort by Revco's new nine-member Board of Directors to build a new, streamlined management team under chief executive Bill Edwards, who assumed control of Revco when board chairman Sid Dworkin relinquished his day-to-day management duties in early April.

When fully in place, the revamped Edwards management team will mark a major change in Revco's corporate makeup, reflecting the growing influence of both Edwards and outside Revco board members who were influential in the company's leveraged buyout late last year. Many of the executives who played a key role under Dworkin have now departed, including Carroll Hudson, former executive vp and chief financial officer; former vp-marketing Neil Roth; and former head of systems H. Scott Leeseberg. Others have been reassigned.

Broadening management perspective

The management shifts also represent a significant broadening of Revco's management perspective. Several executives who have come on board at Revco in the past several months hail from broad-ranging backgrounds in retailing, banking and other areas, and their expertise may lead to some new directions for the nation's largest drug chain.

Revco president Bill Edwards called the headquarters' changes "ongoing," and said: "We're taking the quality of our current management team and improving on it."

"We are strengthening our organization, with a shift of responsibilities," noted Dick McClain, senior vp-corporate services and personnel.

Chief among the newest appointments is the induction of discount store veteran Marcus Tully as vp-sales promotion, a new position aimed at boosting Revco's market position. He will oversee and coordinate all advertising, in-store promotional activities and merchandising layouts for Revco, spearheading a more comprehensive marketing effort by the chain. He will report to senior vp-marketing John Crowley, who will concentrate more heavily on purchasing, according to a spokesman.

Tully, 62, last worked as senior vp-marketing for Famous-Barr, a division of May Department Stores, before taking early retirement. Prior to that, he served as senior vp-marketing for D.L. Hudson, a Detroit-based retailer.

Richard Hann, meanwhile, has been brought in as vp-information systems, replacing Scott Leeseberg, who has left the company. Hann, 46, has 25 years of systems management experience, most recently as director of business systems development for Firestone Tire & Rubber.

Other changes in Revco's management team may be forthcoming as its Board of Directors seek to minimize costs and boost profitability quickly in order to retire the $1.45 billion in debt Revco assumed to take itself private. Said one local chain-drug competitor in the Cleveland area: "Revco seems to have been preoccupied with internal changes and problems for the last two years, and they're still going through a big transition."

Bolstering financial team

In another move, two veterans of Great Atlantic & Pacific Tea Co. have strengthened Revco's financial team. Gregory Raven, 37, has been named vp and treasurer, reporting to cfo Vito Cardace. Twenty-eight-year-old James Hagan is new assistant treasurer.

Wilbur Smith, former Revco vp-financial planning and treasurer, will remain as vp-financial planning and assistant to Cardace.

In a shift of duties, Ellis Jones, former divisional merchandise manager, has been named director of purchase order systems and will serve as "the primary interface between systems and purchasing," according to McClain. Replacing him as head of buying for OTC, H&BA, cosmetics, stationery, household chemicals and other general merchandise is Bob Springer, 47, a veteran of F&M Distributors and W.T. Grant. Springer will continue to share merchandising duties with divisional merchandise manager Phil Carfagno.

In another internal shift, Howard Silver, 41, former director of internal audit, has been promoted to vp-inventory management.

TRENDS

Nielsen tracks retail growth in cosmetics

Food and mass merchandise stores are continuing to outstrip drug stores in generating growth in color cosmetic dollars.

According to A.C. Nielsen's Marketing Research division, food stores increased their cosmetic dollar sales by 15% in 1986, while mass merchandise stores such as K mart and Wal-Mart generated a 10% increase in color cosmetic dollars.

Drug stores, on the other hand, only managed a 7% increase in all color cosmetic dollars.

As a result, the drug store share of total mass cosmetics dollar sales shrank again in 1986. The drug store segment of mass color cosmetics sales slipped 1.1 percentage points to just 58% in 1986. At the same time, the share for food stores grew by 0.9 percentage points to 17.4%, while the mass merchandise share grew by 0.2 percentage points to 24.6%.

Face makeup growth strong

All three retail segments generated their strongest growth in the facial makeup segment of color cosmetics.

- Face makeup sales increased 20% in food stores in 1986. They were up 12% in mass merchandise stores, and they grew by 9% in drug stores.
- Nail color was the second fastest-growing segment in food stores in 1986. However, nail color sales in drug stores were up only 6% in 1986, according to Nielsen, and the segment only grew by 8% in mass merchandise stores in 1986.
- Mass merchandise stores generated their second strongest growth surge in the eye color category. However, eye color was the softest growth segment for drug and food stores, up in dollar sales just 4% and 10%, respectively, in 1986.
- Lip color was the second strongest growth segment for drug and food stores in 1986. Food stores had a 14% increase in lip color sales in 1986, while drug stores had an 8% increase.

Launches spurred sales

According to buyers, the surge in facial makeup sales was driven by the launch of several new lines in this segment in 1986, supported by surges in manufacturer consumer advertising and promotions.

Maybelline and Cover Girl, buyers say, did particularly well with their new loose powders, and Cover Girl, Coty, Revlon and Almay did well with their cream and liquid makeups.

Many buyers also said that L'Oreal's 2-year-old line of Visuelle liquid makeups continue to do well in their stores.

Natural Wonder dropoff

Some buyers say that the newly repackaged Factor line is also doing well, but several buyers report sales have started to fall off on Revlon's Natural Wonder line.

Several buyers blamed the dropoff on Revlon's failure to supplement its national print campaign for Natural Wonder with strong spot TV and radio coverage for the brand.

In fragrances, buyers re-

Continued on page 19

Growth of color cosmetic sales in retail drug stores
(1986 vs. 1985)

Segment	1986 $ sales (millions)	% Change
Face makeup	$282.3	9%
Eye color	$297.5	4
Lip color	$213.4	8
Nail color	$162.0	6
All color cosmetics +	$895.2	7

+Sales of shaded or color cosmetics in drug stores only.

Source: Nielsen Marketing Research

Gallup/Drug Store News consumer survey highlights

(See coverage starting on p.36.)

- **Forty-two percent of cosmetics users say they "most often" buy their cosmetics in drug stores.**
- **Forty-three percent of all fragrance users buy their fragrances "most often" in department stores; 23% of all users buy most often in drug stores.**
- **Lipsticks are the most commonly used color cosmetic; eye liners are the least commonly used.**
- **Nearly 90% of American women use fragrances, but only 25% of users are wearing fragrances more often today than two or three years ago.**
- **Nearly 12% of all cosmetics users think drug stores would be an even better place to buy cosmetics if their pricing were "more competitive and their selection more varied."**
- **Nearly 18% of all fragrance users think drug stores would be better places to shop for fragrances if they carried a more varied selection; 13% think drug stores should be more competitive on price.**

TRENDS

Chain drug retailers reveal cosmetic sale sizzlers

Chain drug retailers are reporting strong gains in cosmetics sales for the past year.

In a surprising twist, some buyers also report that fragrance sales are trending up as well, fueled by the launch of what seems to be at least two new successful brands, Cosmair's Glorious and Revlon's Intimate, as well as by continued strength in the sales of such popular mass market fragrances as Vanderbilt, Lady Stetson and Primo, the Giorgio alternative from Parfums de Coeur.

However, the positive trend in fragrance sales is not being reported by all chains or in all sections of the country. The majority of buyers are still calling the category "relatively flat." The improvements seem to be strongest in such chains as SupeRx and Eckerd, which have been concentrating recently on streamlining their inventory and improving sell-throughs.

Drug Emporium uses cosmetic manufacturers' prepacks and spinner racks to create excitement in their cosmetic aisles. Consumers react by often buying impulsively.

Eye, lip, nail selling well

In cosmetics, most retailers report that eye, lip and nail color cosmetics are selling well. Especially hot are the color swirl pencils that L'Oreal and Aziza have on the market, the eye color shadow wands from Maybelline, the newly repackaged and relaunched nail enamels from Revlon and Max Factor, and the colored mascaras that Almay, Maybelline and Flame Glow from Del Labs have out.

Stephanie Hayter, cosmetic buyer for Genovese Drug Stores in New York, said the color mascara in her prepacks have "literally flown out of the stores" in the past few months.

Jeanne Ponke, cosmetics buyer for Perry Drug, reports the same trend.

Ponke said that all the Maybelline promotions, in fact, have been strong. "They seem to have the better colors," she said, "the really strange colors that the younger consumers seem to like."

Merchandising for impulse

Buyers also say, however, that the best way to merchandise the swirls, the colored mascaras and the multi-colored pencils are from prepacks and other types of displays. The feeling is that if such products went in-line, they would lose their impulse appeal and tend not to turn as well.

Also doing well in color are the many new trial sizes on the market. Buyers say that prepacks of trial-size enamels or trial-size mascaras really zip through the stores.

Almost a year after L'Oreal introduced Zazu, the first hair color cosmetic, buyers are still uncertain about the line's success. Most buyers say they now have Zazu in their regular L'Oreal planograms. But reports are that sales of Zazu range from "all right" on select sku's to "poor" overall.

There is still hope that L'Oreal will do more to support Zazu through stronger consumer advertising, but the consensus is that "the jury's still out on Zazu."

Slight peaking in nails

In the nail care category, buyers say sales are still strong, but there seems to be a slight peaking from a rate of growth that in the past two years has been "phenomenal."

Nail extenders or press-ons are still selling well, but many buyers are now reporting that sales are trending toward the lower price points in this category. A few buyers are saying that sales are slowing considerably and that the boom in press-on sales "may be over by the end of this year."

Most buyers say the Lee press-ons, which launched the category's growth surge nearly three years ago, are still thriving, as are the lines from Jonee on the West Coast and Jonel in the Midwest.

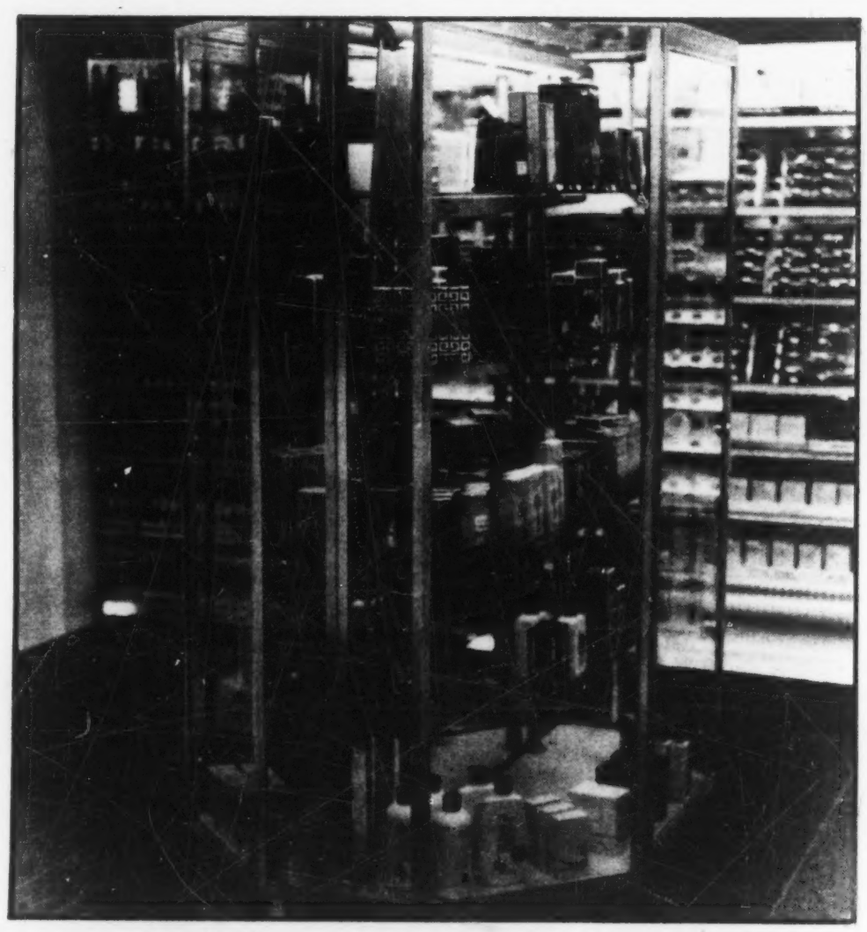
Budget lines from companies such as Kristy Wells, Wet 'n Wild and Artmatic are growing in strength.

Nail treatment is continuing to show strong growth trends, and some buyers say their sales of treatment products are stronger today than their sales of colors and pressons.

Perry Drug, in fact, is almost doubling the average amount of space it gives this segment. Most stores will soon have about 6-7 feet for treatment products, Ponke said, rather than the approximate 4 feet in the past.

"Signing this segment is also just down the road for

Continued on page 22



Fragrance sales have been flat for several years, but now some buyers report new products are driving up sales.

Growth in color cosmetic sales by category segment
(1986 vs. 1985)

Segment	1986 Sales (millions)	% Change over 1985
Face makeup	$ 497.5	12
Eye color	441.5	7
Lip color	337.9	9
Nail color	267.4	8
All color cosmetic sales	$1.544.4	9

Source: Nielsen Marketing Research

Nielsen reports on cosmetics growth

Continued from page 17

port the category is still flat, and Nielsen numbers support that view.

According to Nielsen's Marketing Research division, sales of women's mass fragrances in drug stores increased by only 1% in 1986, while they declined by 3% in mass merchandise stores. Nielsen does not track the sale of women's mass fragrances through food stores.

In terms of market share for mass women's fragrances, drug stores picked up 0.9 percentage points in 1986 for a 74.3% share.

Men's fragrances up

The men's mass fragrance segment did a bit better in drug stores in 1986, however. Nielsen says sales of men's mass fragrances through drug stores were up 11% in 1986 but were down 6% in mass merchandise stores.

Sales of men's fragrances in food stores, Nielsen says, were up 8% last year.

In men's mass fragrances, drug stores picked up 2.7 percentage points, for a year-end total dollar share of 60.4%.

Buyers say the best sellers in men's fragrances were still the mass prestige brands, particularly Stetson and Chaps. In women's, the best sellers continued to be Lady Stetson and Vanderbilt, with Revlon's new Intimate showing "promise."

Growth in mass market fragrance sales

Segment	1986 $ sales (millions)	% Change 1986 vs. 1985
Women's fragrances*	$767.70	0.0%
Men's fragrances	500.50	6.0%
All mass fragrances	1.268.20	2.2%

*Sales in drug and mass merchandise stores only
Source: Nielsen Marketing Research

Mass women's fragrances sales by retail segment

Retail segment	1986 $ sales (millions)	% Change	Share of sales
Drug stores	$570.4	1%	74.3%
Mass merchandisers	$197.3	(–3%)	25.7%

Note: Food store sales are too negligible to track
Source: Nielsen Marketing Research

Mass men's fragrance sales by retail segment

Retail segment	1986 $ sales (millions)	% Change	Share of sales
Drug stores	$302.5	11%	60.4%
Mass merchandisers	$110.0	–6%	22.0%
Food stores	$ 87.9	8%	17.6%

Source: Nielsen Marketing Research

Drug chain execs are putting a much stronger emphasis on fixturing. Manufacturers are being asked to develop attractive dislays that maximize space for the best-selling lines.

Buyers pick hot cosmetic sellers

Continued from page 19

us," she said.

The Salle and Sally Hansen lines are both mentioned as popular sellers. So are certain individual treatment items from Revlon and Almay.

Nail treatment 'families'

Most buyers are continuing to merchandise nail treatments as part of a "family" of nail care items—all Revlon color and treatment items together, all Almay together and so on—but a few chains are starting to follow Perry's example; others, such as SupeRx, are thinking of adopting such an approach soon.

In addition to nail, face makeups are also becoming a hot segment, especially the new, lighter and silkier foundations that promise women a more natural look and a smoother coverage.

In Kentucky, Billie Carpenter, the cosmetics buyer for Begley Drug, reports excellent sell-throughs on the new, light "mousse makeups" from Factor and Maybelline.

Stephanie Hayter at Genovese also reported her face makeup sales have been strong. "Factor, Maybelline, Cover Girl and Clarion have all been doing well," she said.

Clarion cited

Most buyers continue to rate the new Clarion makeup line as doing well in their stores. Reports on Clarion range from "fabulous" from Genovese and Begley to "healthy, but not yet to the plateau we expected" from SupeRx and Perry Drug.

Most buyers also report that the presence of the Clarion line in their stores doesn't seem to have negatively affected the sales of their other makeup brands.

Buyers say Cover Girl and Almay are showing sales increases, as are Factor, Revlon and L'Oreal's Visuelle.

"I think Clarion is expanding the category's sales for us," said Perry's Ponke. "We seem to be getting more consumers in our stores buying makeup."

Revlon's relaunch of Natural Wonder, which started off with a bang last year, is still getting good reviews overall, but several buyers report that sales slowed down in the line as Revlon reduced their TV and radio advertising, and a handful of buyers said their recent sales of Natural Wonder have been "way down."

Revlon, however, has been working on what buyers say will be a "new program" for Natural Wonder, and the consensus is that if Revlon does resume its strong consumer advertising, the line will do well.

Pleased with the sales of Cover Girl, Almay and L'Oreal's Visuelle, most buyers report expanding space for the lines, especially for Almay and Cover Girl.

Factor feedback upbeat

Current feedback on the Max Factor makeups is encouraging. Buyers say the Factor makeup lines are selling better than they have in a long time, but Factor's secondary brand, Maxi, is still not considered a success by most buyers, and many chains are no longer carrying the line everyday.

Buyers also say they like the positioning and the packaging on the new Revlon line of New Complexion makeup. The consensus is that the line, which has an average suggested retail price of about $7, will do well in the drug store marketplace this year.

At SupeRx, cosmetic buyer Mike Russell said that new products such as the Maybelline and Max Factor mousse makeups, the Clarion line and now the New Complexion line from Revlon, which is currently shipping, have been driving the growth in cosmetic

Continued on page 31

The on-the-go beauty organizers

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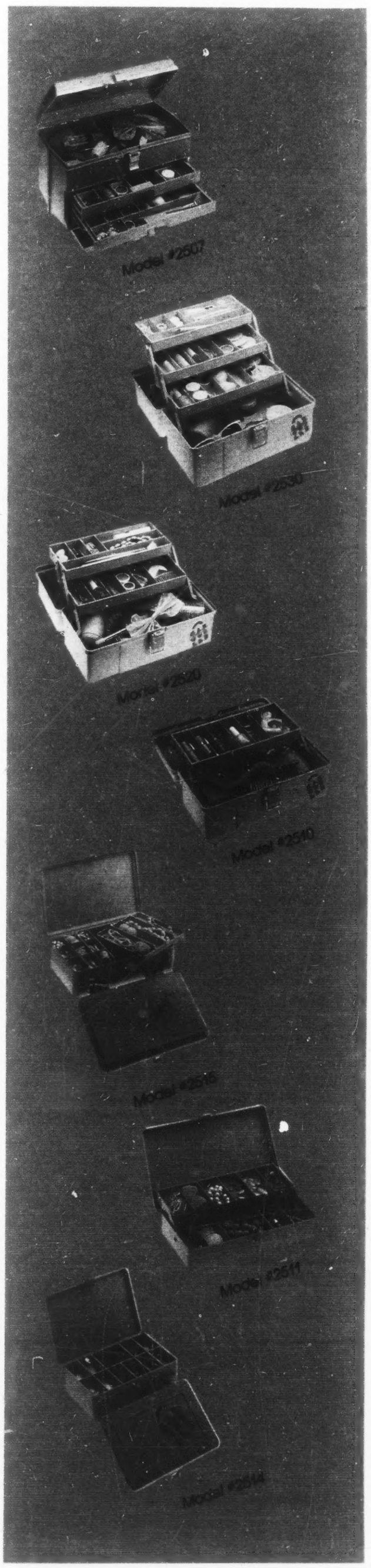
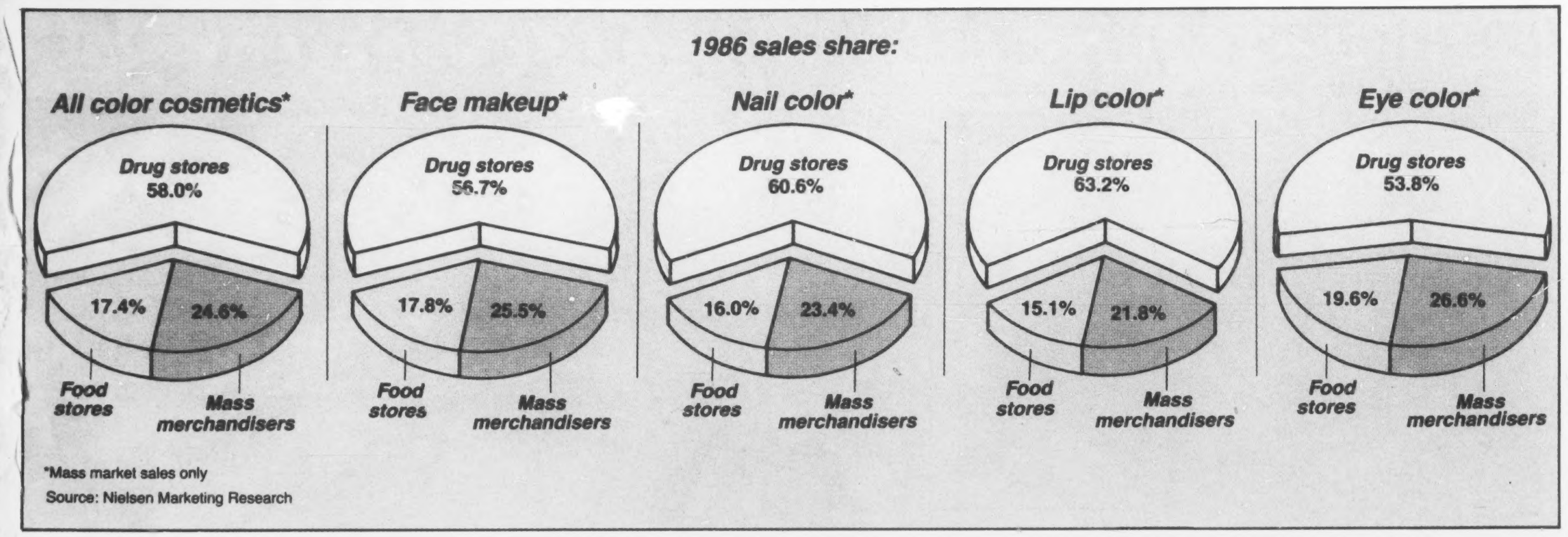


Special report: Cosmetics/fragrances

TRENDS



Chains report cosmetic launches gain momentum

Continued from page 22

sales this past year.

Russell said that thanks to all the product introductions this past year, SupeRx's cosmetics sales have been growing "at double-digit rates."

Fragrance sales, he said, have been even stronger, but that was also because SupeRx streamlined its fragrance inventory, weeded out slow turners, brought in less "cardboard" in the form of excess prepacks and took a marketing position behind the brands with the highest brand shares or the best chances for market share gain.

Skin treatments growing

In the skin care category, treatment sales have been showing moderate to strong growth, and buyers are unanimous in saying that the new Revlon Anti-Aging cream is selling well, along with the Almay treatment lines, the Coty Overnight Success cellular replacement line and Revlon's European Collagen line.

There is cautious optimism that sales in the skin care treatment segment, particularly the anti-aging and wrinkle preventive categories, are about to take off.

Most buyers point out that the segment's sales are exceptional in department stores and that Revlon's success with its Anti-Aging in drug stores may be the start of a new trend. They add that the overall growth in their Revlon, L'Oreal, Almay and Factor cosmetic sales could be an indication that drug stores are beginning to be "taken seriously" as a place to buy "better cosmetics."

A few buyers say they see a corresponding "slight fall-off" in some of their budget-line cosmetics sales, but the consensus is that the mass prestige brands have been attracting the more upscale cosmetics shopper.

"Revlon's new lip and nail line has been setting records in our planogram," said SupeRx's Russell.

"At the time time, we've seen increases in L'Oreal, Max Factor, Almay, etc. I think all the new packaging and the new launches have increased the awareness of the category in the eyes of the cosmetic customer. We're now being perceived as a place to buy the better brands."

Repackaging impact

A few buyers report that the companies that have not repackaged this year are losing share to some of those that have. Several buyers said they are seeing a fall-off in L'Oreal's nail and lip color sales because of the Revlon and Max Factor repacks.

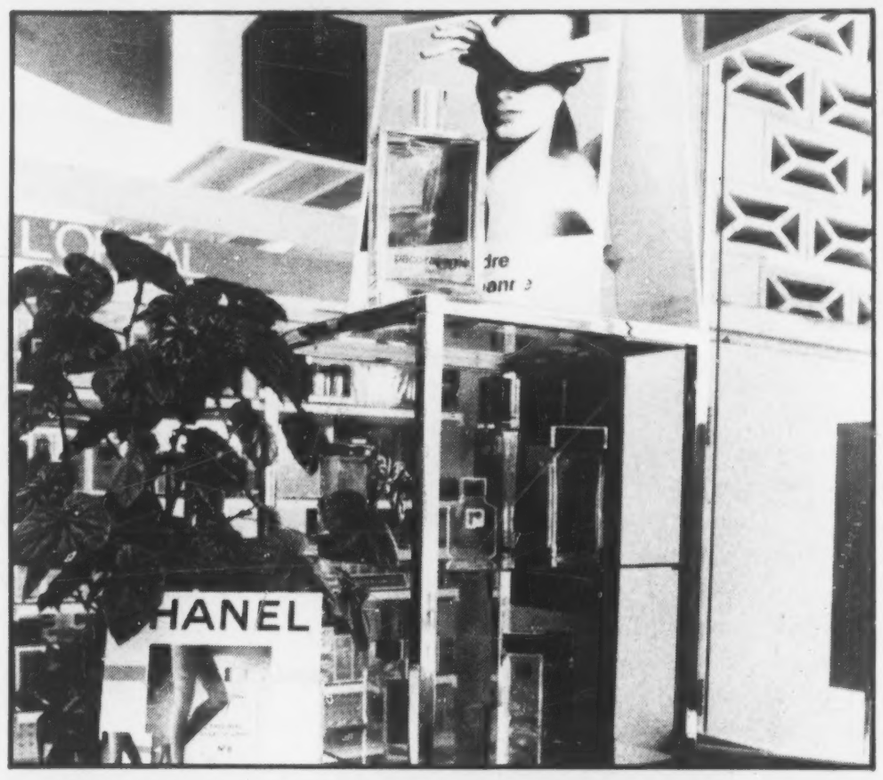
"One of L'Oreal's strengths before," said Begley's Carpenter, "was its packaging. It was so attractive they could charge 50-75 cents more and still sell well.

"Now, however, everyone has nice packaging, and it's hard to get the customer to spend those extra pennies."

Carpenter pointed out that some of the budget cosmetics manufacturers are also giving the mass prestige brands a run for their money on color promotions.

"Just a few years ago," she said, "there was no doubt that L'Oreal, Revlon, etc., had the best and hottest colors. Now, some of the budget lines have really good colors and very

Continued on page 34



The boutique look is catching on in chain drug store cosmetic departments. Little touches like a plant accenting a fragrance display or an attractive bottle positioned by itself at the top of a display gives the department a "classier" feel.

More drug chains are using the space above their pegged sections to create opportunies for tie-in and incremental sales. A popular tactic is to mix some fragrances in with color cosmetics.

All color cosmetic sales: shares by retail segments

(mass market color cosmetics only)

Year	Drug stores	Food stores	Mass merchandisers
1986	58.0%	17.4%	24.6%
1985	59.1	16.5	24.4
1984	59.9	16.6	23.5
1983	62.0	16.2	21.8
1982	64.9	15.2	19.9

Source: Nielsen Marketing Research

Growth in color cosmetic sales by retail segments

(% change 1986 vs. 1985)

Category	Drug stores	Food stores	Mass merchandisers
Eye color	4%	10.3%	10.0%
Lip color	8	14.0	9.0
Nail color	6	17.0	8.0
Face makeup	9	20.0	12.0
All color cosmetics	7	15.0	10.0

+ Mass market retail sales only

Source: Nielsen Marketing Research

In the Jean Coutu drug stores in Canada, cosmetic and fragrance sections are given "department store treatment."

Buyers eye sales trends in fragrances

Continued from page 31

nice displays."

At Begley, the Wet 'n Wild and Artmatic lines have been particularly successful, she added. Other buyers singled out the Emerge line as "very good."

The word on fragrances

In fragrances, the early word on Glorious and Intimate is that both new brands are selling strongly and are being well-supported by Cosmair and Revlon.

Masquerade, which Prince Matchabelli launched last Christmas, is considered "dead"; the main problem seemed to be lack of support for the brand.

Reports on Krystle are mixed, with some buyers saying the brand is holding its own and others saying sales are trending down gradually. Revlon's Scoundrel Musk is said to be doing well, but most buyers report the Scoundrel fragrance itself still hasn't caught on.

Buyers are seeing the same effect with the Jovan fragrance line: The Musk is strong, but the rest of the line is relatively flat.

In men's fragrances, the best sellers continue to be Cosmair's Chaps and Coty's Stetson, with early reports on Colonia's new Dallas line indicating the brand shows promise.

Reports on Beecham's new Adidas line are still not encouraging. Several buyers said the line was not moving well, and no one identified the line as a best seller.

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TRENDS

Gallup/DrSN cosmetics-fragrance shopper survey

Gallup offers insight into cosmetics/scent shoppers

In 1986, the profitable cosmetics/fragrance departments of chain drug stores generated some $1.6 billion in dollar revenues and accounted for approximately 5.3% of all chain drug store sales.

Cosmetics was the fifth-fastest growing category in the retail drug store marketplace in 1986. Out of 12 core drug store departments, it was the sixth most profitable in bottom-line dollars.

To many drug store executives, the cosmetics and fragrance department is their most important developmental franchise, second only to pharmacy in consumer appeal.

Retailers optimistic

Retailers tell *Drug Store News* that cosmetics is also one of the few categories in their stores in which they feel they might be able to generate double-digit growth increases well into the 1990's.

Walgreens, Eckerd, Peoples, SupeRx and Revco, for example, are trying to maximize the potential of their cosmetics/fragrance departments by improving the assortment in the merchandise mix, expanding and reconfiguring the location of the department within new and existing stores and training salesclerks to offer shoppers more personalized, attentive service.

Don't fully understand

Yet drug store executives also tell *Drug Store News* they don't fully understand the cosmetics and fragrance customer. They're not sure just what the average woman is looking for when she walks into their stores to buy a lipstick or a cologne.

Is ambience as important as convenience in attracting the cosmetics purchase?

The Gallup survey tells *Drug Store News* that American women are not dramatically increasing their use of color cosmetics. Cheek blush is used by 81% of all women.

Can a retailer sell a Revlon, Clarion, Almay or L'Oreal color cosmetic to the woman who says she usually buys Clinique or Estee Lauder in department stores?

Is price the key motivator of a sale, or are service, convenience and efficiency equally as important?

What cosmetics brands does the average women want to see advertised in drug store promos?

And which are the fragrances that women are buying as their "everyday" scents?

Go to the source

There is only one way to get answers to these questions, of course. That's by asking the average American woman how she buys and uses cosmetics and fragrances.

So that's what *Drug Store News* did earlier this year, in a special survey commissioned with the Gallup Organization, the marketing and attitude research company headquartered in Princeton, N.J.

In the stories that follow, *Drug Store News* reports on the Gallup findings in areas that we think have key impact on drug store sales.

Key information

Here are some of the things we'll give you information on:

- The percentage of American women who normally use perfume, cologne, nail polish, lipstick, mascara, cheek blush, eye liner and eye shadow.
- Changes in the frequency of use: How many adult women are using fragrance or nail polish or other color cosmetics "more often" today than several years ago?
- Brand preferences by category segment. How many women, for instance, report regularly using Revlon's nail polish vs. say, Maybelline's or Avon's.
- Where women "sometimes" shop for cosmetics and fragrances, and where they say they most often shop for these products.
- Why they choose the stores they "most often" shop.
- What women say drug stores should do to make their stores "better" places to shop for fragrances and cosmetics.

The methodology for the study was a telephone survey of approximately 500 adult women, age 18 and older. This study is a nationally representative projectable sample of all adult American women.

Because space does not allow us to report on all the findings from the survey, including all the demographic breakouts by geographic region, income, race, marital status and household size, *Drug Store News* has distilled this report into the findings we consider most critical to our readers.

More data available

However, for those who would like to learn more about the findings—to discover, for example, whether women living in the East prefer different fragrances or different brands of nail polish or eye shadow from women who live in the South, West or Midwest—contact Liz Parks, Special Projects Editor, *Drug Store News*. We'll be glad to send copies of portions of the study to anyone who is interested.

Meantime, we hope you enjoy reading the special report that follows.

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How women choose fragrances ....p. 56

Lipstick sweeps survey among older consumers

According to the Gallup consumer survey of cosmetics and fragrance users commissioned by *Drug Store News*, lipstick is the most commonly used color cosmetic. Surprisingly, the incidence of use is higher among consumers age 35 and older than among younger consumers.

The Gallup poll found that 93% of all women age 35-49 and 85% of all women over 50 use lipsticks—and most indicated they use it with the same frequency today as they did several years ago.

Less popular with young

However, lipsticks are somewhat less popular today with younger consumers than are most other color cosmetics. For example, 86% of all woman age 18-24 use lipstick, but 96% use cheek blush and at least 90% use eye shadow, mascara and nail polish.

Buyers say this may be because today's younger women are substituting lip glosses for lipsticks, or because the use of bold color on the lips is not regarded as especially stylish in an era in which women are trying to look more natural.

Buyers and cosmetics salesclerks at Genovese, Peoples, Walgreens and Fay's, for example, are telling *Drug Store News* that the better-selling lipstick shades in their stores are the subtle colors, such as pink, peach, mauve and the lighter reds.

Eye liners least used

The least popular color cosmetics, according to the Gallup survey, are eye liners. Fewer than six out of every 10 women polled said they currently use them.

The incidence of use was the highest among women age 18-24, which buyers say is no surprise, and among women age 35-49.

Buyers expressed surprise to learn than usage dropped off between the ages of 25 and 34. The best explanation anyone could offer for that finding was that women in that age group may be so busy with

Continued on page 39

Nearly seven out of every ten women use eye shadow today, and the most popular brands are Maybelline and Cover Girl.

Gallup/DrSN cosmetics-fragrance shopper survey

TRENDS

Older women use lipsticks most frequently

Continued from page 36

families, work and other responsibilities that they cut that extra makeup step out of their lives as a time saver.

"As their children get older and their lives become simpler again," one buyer speculated, "they seem to go back to making up more fully."

Another buyer reasoned that women in their mid-30's may be re-entering the workforce and perceiving eye liners as a necessity for giving them a more professional, polished look.

Cosmetics use by age group

Mascara was the most commonly used color cosmetic in the 25-34 age group, but there was less use of eye shadow, nail polish, lipstick, and eye liner among this group than among women age 18-24 or 35-49.

Manufacturers seem to be reaching women age 25-34 effectively with their marketing messages, however. This age group said it was using different types of color cosmetics more often today than several years ago.

Nearly three out of every 10 women age 25-34 said they were using more nail polish today than several years ago, while four out of every 10 said they were using more lipstick, and about three out of every 10 said they were using more mascara, cheek blush and eye shadow.

Age 50-plus women

For the woman over 50, the most popular color cosmetic was lipstick. It was used by more than eight out of every 10 women.

Lipstick was followed by cheek blush and nail polish, which were both used by nearly two out of three women.

Just four out of every 10 women over 50 reported using eye shadow and mascara, and just three out of every 10 said they used eye liners. Women in this age bracket were more likely to be using color cosmetics in about the same way as they did several years ago.

Buyers told *Drug Store News* that, based on the current incidence and frequency of use, they believe the best color cosmetics to promote and expand today are:

- The nail polishes, used by 75% of all women. A total of 18% of all women say they are using nail polish more frequently today than several years ago.
- Lipsticks, used by 85% of all women, with four out of every 10 women age 18-34 reporting they use lipsticks more frequently today than several years ago.
- Eye shadows, used by nearly 70% of all women, with nearly three out of every 10 women age 18-49 saying they are using eye shadows more often today than several years ago.
- Cheek blushes, used by 81% of all women, with about three out of 10 women age 18-49 reporting they are using blushes more often today than several years ago.

Because eye liners and mascaras have the least general appeal, these categories are best limited to promotions in markets where there are younger women and women with household incomes of more than $15,000 a year, according to buyers. Space allocations can also be kept tight in these segments if sell space is at a premium.

Women use color cosmetics
(% breakdown by age)

Segment	All women	18-24	25-34	35-49	50 plus
Nail polish	75.3%	89.7%	80.4%	81.7%	64.7%
Lipstick	85.4	85.7	78.7	93.1	85.1
Eye shadow	68.9	91.4	83.3	88.8	41.6
Mascara	70.7	90.3	90.1	90.2	41.6
Eye liner	56.5	86.5	59.4	78.3	31.6
Cheek blush	81.3	96.0	88.9	88.6	68.0

Source: The Gallup Organization for *Drug Store News*

Most cosmetic purchasers, attracted by convenience, prefer shopping in drug stores for their makeup items.

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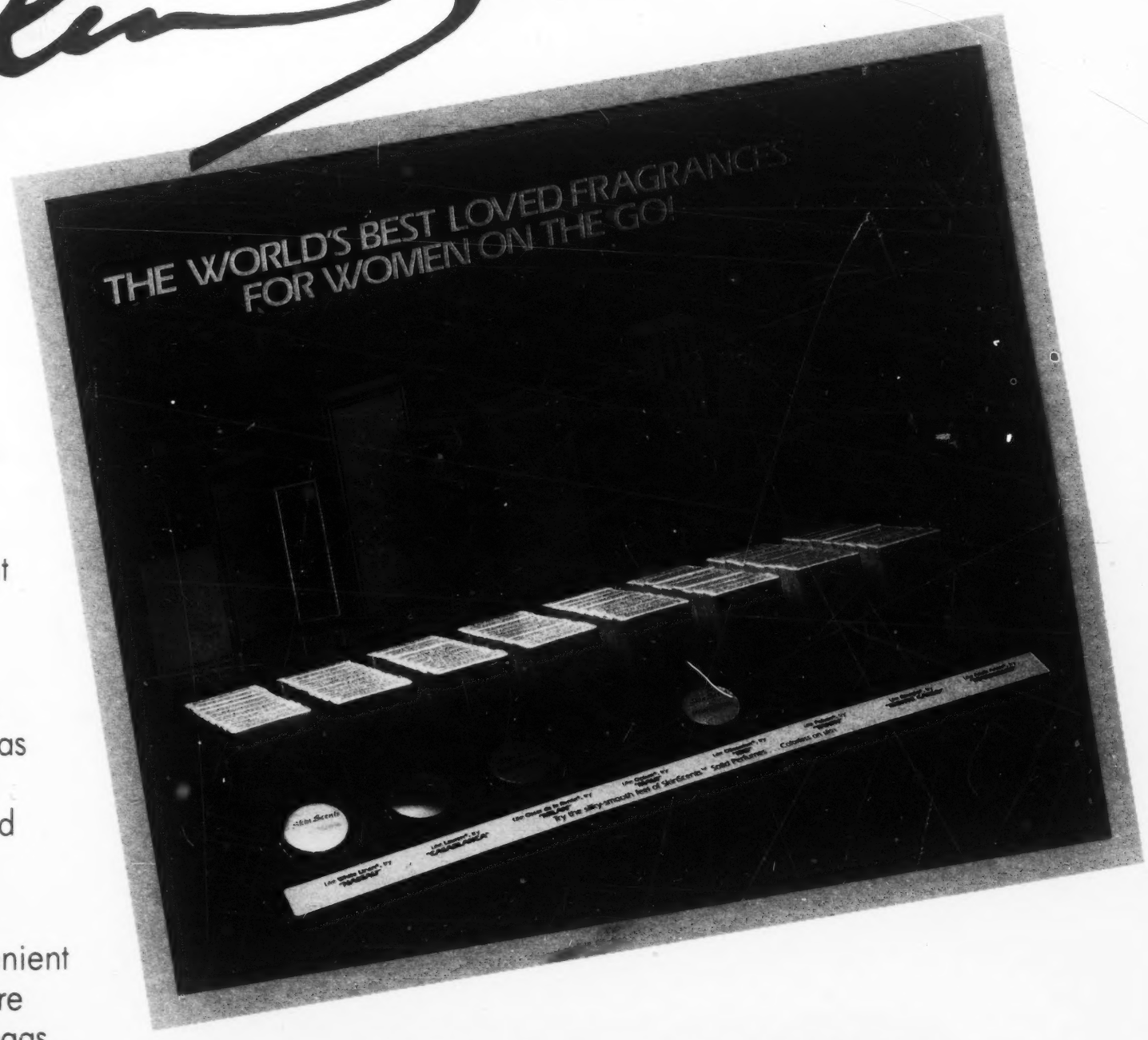

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TRENDS

Gallup/DrSN cosmetics-fragrance shopper survey

Poll shows popular color cosmetics

Users pick favorite brands of lipsticks

Brand used most often	Users
Avon	19.1%
Revlon	16.3
Estee Lauder	11.5
Cover Girl	9.5
Maybelline	6.7
Clinique	5.7
Max Factor	5.3
L'Oreal	3.5
Elizabeth Arden	2.8
Mary Kay	2.6
Coty	2.2
Fashion Fair	1.4
Merle Norman	1.1
Almay	1.0

Source: The Gallup Organization for *Drug Store News*

Users pick favorite brands of nail polish

Brand used most often	Users
Revlon	24.2%
Avon	17.2
Cover Girl	11.3
Maybelline	8.5
L'Oreal	8.2
Cutex	8.0
Sally Hansen	4.9
Max Factor	3.5
Wet 'n' Wild	1.7
Fashion Fair	1.1

Source: The Gallup Organization for *Drug Store News*

In nail polishes, Revlon is far and away the most popular brand: 24% of nail polish users reported that Revlon was the brand they bought the most often.

Avon was a weak second, with 17% selecting it as a favorite brand, and Cover Girl was third with 11%.

Maybelline, L'Oreal and Cutex each were selected by 8% as a favorite brand. Sally Hansen was mentioned by about 5%, and Max Factor by nearly 4%.

In the younger age group, Maybelline was the preferred nail polish brand, with Avon a strong second choice.

L'Oreal was the second most popular brand with women 25 to 34, and the fourth most popular brand with women 18 to 24.

Cutex made it into the top five brands with women over 35, and Sally Hansen was ranked as a top five brand with women over 50.

More glamor needed

Buyers say the problem with Cutex and Sally Hansen is that their ads do not seem to be "glamorous enough" to attract the younger consumers.

The race for favorite brand status was hotter between Revlon and Avon in the lipstick category.

Avon made it into the top place with nearly two out of every 10 women choosing it as a favorite brand, but Revlon was a close second with 16% of all users selecting it as their favorite lipstick.

Estee Lauder was third with 11.5% of the vote while Cover Girl was chosen by 9.5% of all users. Maybelline got 6.7% of the vote; Clinique received 5.7%; Max Factor, 5.3%, and L'Oreal, 3.5%.

Age data given

Looking at the data by age breakouts, Avon retained its number one position with every age group except the women 25 to 34. Their first preference was for Maybelline, with Revlon a very close second, and Avon a close third.

Revlon, oddly enough, was just the fifth most popular brand with women 18 to 24. Their runaway favorite was Avon, chosen by nearly two out of every 10 women in this age group.

Eye makeup standings

Revlon, which clearly dominated the nail polish category as a favorite mass market brand, was not nearly as popular in the eye makeup category. Neither was Avon, which came in third.

The clear cut favorite here was Maybelline with 25% of all eye makeup users choosing Maybelline as their favorite eye makeup brand. Another 15% picked Cover Girl.

Avon was chosen by 12% of all users, Estee Lauder by 8%, Mary Kay and Clinique each by 5%, and Revlon by 6%.

Maybelline was the eye make-up choice with all users except those over 50. In the 50 plus category, Maybelline tied with Estee Lauder as the favorite of 15% of all consumers.

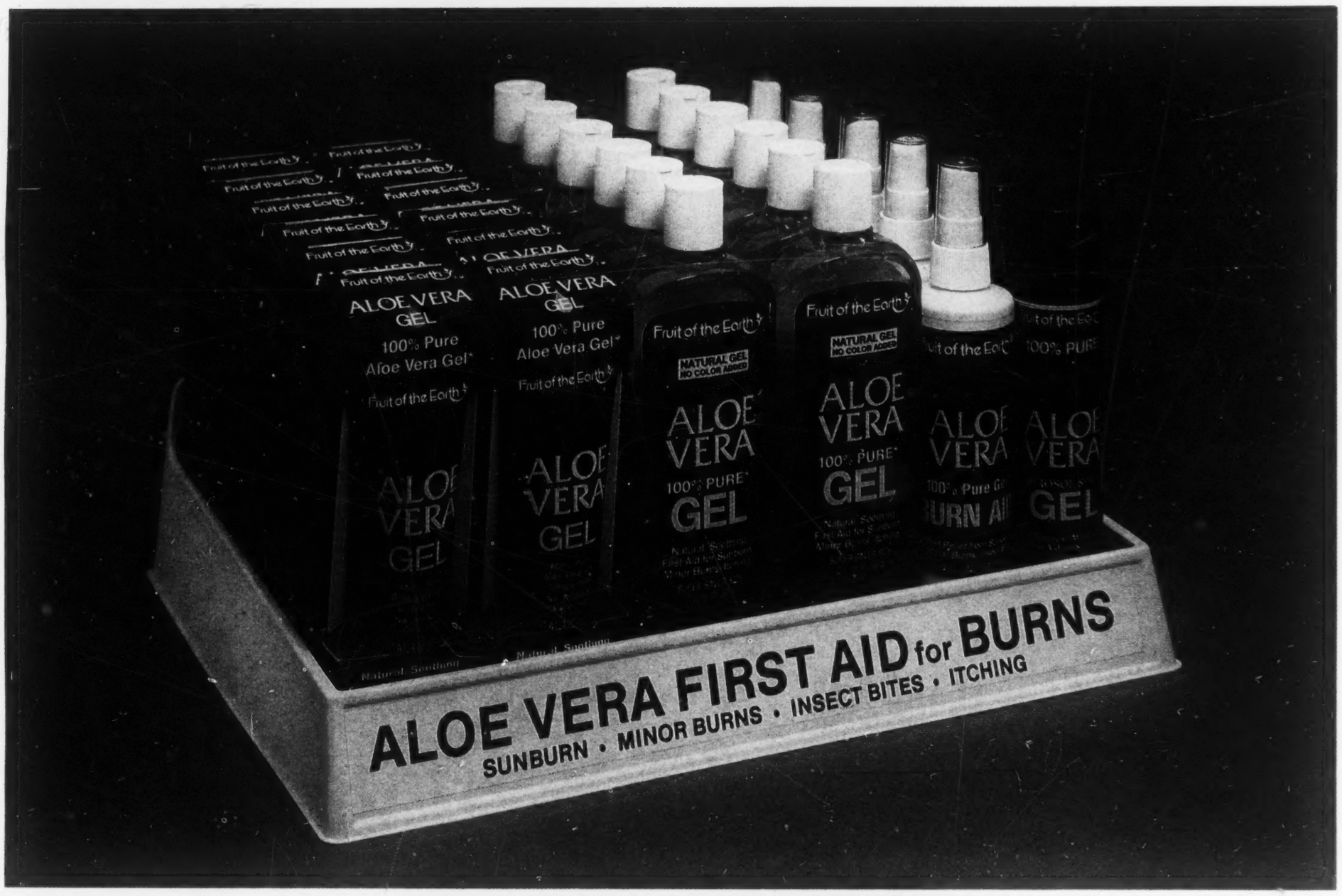
Cover Girl was named a Top Five favorite by all age groups. Specifically, 18% of all users 18 to 24 preferred Cover Girl, while 13% of all the users over 50 also preferred it.

L'Oreal was only mentioned as a Top Five favorite by women 25 to 34. Revlon made it into the top five twice, chosen as a favorite by women between the ages of 25 and 34 as well as those between 35 and 49.

Users pick favorite brands of eye makeup

Brands	Users
Maybelline	25.3%
Cover Girl	15.1
Avon	12.3
Estee Lauder	7.9
Revlon	6.0
Mary Kay	4.9
Clinique	4.6
Max Factor	2.9
Aziza	2.3
L'Oreal	2.3
Almay	2.1
Merle Norman	1.5
Lancome	1.2

Source: The Gallup Organization for *Drug Store News*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NO. PIECES	ITEM NO.	ASSORTMENT NO. 7327*	REGULAR COST DOZEN	REGULAR COST EACH	ASSORTMENT COST
6	138	Aloe Vera Burn Air Natural Spray, 8 oz.	32.00	2.666	16.00
6	139	Aloe Vera Gel Aerosol Spray, 4 oz.	24.24	2.020	12.12
12	134	Aloe Vera Gel, 4 oz. Tube	16.67	1.389	16.67
12	120	Aloe Vera Gel, 12 oz.	35.15	2.929	35.15

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Gallup/DrSN cosmetics-fragrance shopper survey

TRENDS

Dept. stores, drug units compete for cosmetic sales

A third of all cosmetics purchasers say they sometimes buy their cosmetics in department stores, while 26% say they sometimes buy them in regular drug stores.

However, department stores are more likely than drug stores to get women to buy "most" of their cosmetics in their specific stores.

According to the *Drug Store News*-sponsored Gallup study of cosmetics consumers, 80% of all women who say they sometimes buy cosmetics in department stores also say they "most often" buy their cosmetics in this type of store.

In contrast, however, just 62% of all consumers who sometimes buy cosmetics in regular drug stores say they "most often" shop for cosmetics there.

Gallup also found that just 68% of all consumers who said they sometimes bought cosmetics in discount drug stores also said they "most often shopped" there for cosmetics.

Preferences cited

Women between the ages of 25 and 34 are the most likely to choose a regular drug store for the cosmetics they purchase "most often," according to the Gallup survey. Other popular stores for this age group are department stores and discount department stores.

However, this is also the age group that is least attracted to a discount drug store for a cosmetics purchase.

Just 13% of all the women 25 to 34 said they shopped discount drug stores for most of their cosmetic purchases, compared to 21% who said they shopped a regular drug store "most often" for cosmetics.

Oddly enough, however, women age 18 to 24 and women age 35 to 49 showed a lower occurence of most often shopping regular drug stores for cosmetics. They preferred to make more of their cosmetics purchases in discount drug stores, department stores, and discount department stores.

Buyers say they aren't sure why these trends exist, unless women in these two age groups are responding to the discount stores for price and the department stores for service and upscale brands.

According to the Gallup survey, women in these age groups did have a preference for Estee Lauder and Clinique eye makeup, both department store brands that are generally not available in regular drug stores.

Brand-store relationship

Gallup also found that there was a relationship between certain brand preferences and the types of retail stores "most often" shopped for cosmetics.

The typical Maybelline and L'Oreal brand user, for example, tended to make her cosmetics purchases "most often" in some type of drug store.

Revlon, however, which has strong distribution in both types of outlets, was purchased just as frequently in department stores as in drug stores.

Users of Clinique and Estee Lauder, of course, commonly reported making most of their cosmetics purchases in department stores.

Opinions sought

Drug Store News had Gallup ask consumers what they thought drug store executives could do to make their stores "better places to shop for cosmetics."

Remarkably, 27% of all consumers who shop regular drug stores for cosmetics said their stores were fine "just as is." Some 20% of those who shopped discount drug stores for cosmetics also gave that answer.

Some 14% of discount drug store shoppers, however, did say they would like to see more competitive pricing, while 10% said they would like more service assistance "when needed."

Nine percent of all discount drug store shoppers also wanted more variety in selections and more colorful displays, while in regular drug stores, some 13% of all shoppers also wanted more "variety" in the selections carried within the store.

Another 10% wanted more displays, and 9% more service when needed.

Just 7% of all regular drug store shoppers, however, said that more competitive pricing would make their drug stores better places to shop for cosmetics.

There were only a few women who thought drug stores needed to become more convenient or "less hectic" to shop or more efficient. Most women, too, were satisfied with the quality of the brands carried in drug stores.

Just 2% of regular drug store shoppers said their stores could carry better brands, and just 4% of all cosmetic users felt that drug stores needed to stock better brands.

Stores where women buy cosmetics most often

Store type	All women	18-24	25-34	35-49	50 plus
Department	26.5%	23.5%	21.1%	21.0%	34.0%
Reg. drug store	16.1	12.6	20.8	13.8	15.8
Discount drug store	15.4	17.7	12.7	17.0	15.0
Door-to-door	14.2	7.0	12.9	16.3	15.8
Discount/mass merchandise stores*	13.7	22.5	18.5	17.1	6.3
Food stores	3.7	2.9	6.0	4.3	2.5
Specialty stores	3.0	3.7	3.8	4.7	1.3
Mail order	2.6	4.1	1.5	1.7	3.3
Mass department stores**	1.1	2.0	1.5	—	1.5
Other	0.6	—	0.6	0.9	0.5
Don't know	3.0	3.9	0.7	3.2	4.0

Source: The Gallup Organization for *Drug Store News*

*Includes K mart, Wal-Mart, etc.
**Includes Sears, J.C. Penney, etc.

Shoppers' recommendations for making drug stores better places to buy cosmetics

Recommendations	All shoppers	Regular drug store shoppers	Discount drug store shoppers
More competitive pricing	11.9%	6.6%	14.7%
More variety in selection	11.3	12.6	8.9
Service assistance when needed	8.7	9.3	10.0
More displays	7.7	9.9	8.7
Carry better brands	4.3	2.1	3.3
Give more samples	2.2	2.0	—
Give more efficient service	1.2	2.9	—
Less hectic shopping environment	1.2	1.4	1.6
Convenient/easy to get to	1.0	1.0	1.2
Fine as is	17.5	27.1	19.7

Source: The Gallup Organization for *Drug Store News*

What motivated a cosmetic impulse sale

Reason for purchase	Impulse purchasers
Price	20.7%
POP displays	17.1
Makeup demonstrations	11.2
Convenience	10.2
Free samples	8.1
Store ads	4.2
Sales person's recommendation	4.2
Other	21.1
Don't know	7.7

Source: The Gallup Organization for *Drug Store News*

Unplanned buys prevail among 28% of women

Price prompts impulse color cosmetic purchases

In a Gallup cosmetics/fragrance consumer purchase study commissioned by *Drug Store News*, a fourth of the women surveyed said their first color cosmetics purchase at the store they shopped "most often" was made impulsively.

Women age 18 to 24 appear to be the most susceptible to an impulse purchase. According to the study, a third of the women in this age group bought cosmetics on impulse rather than having planned to make the purchase.

Price is key motivation

The one factor that most often motivated an impulse sale was price. A fifth of the women told Gallup they make an impulse purchase because of the price of an item they had seen featured in a store, while 17% said a POP display attracted their attention.

On the whole, some 28% of all consumers said they generally buy more cosmetics than they had intended to purchase. Younger women are especially likely to exhibit this behavior.

Four out of every 10 women under 35 years old said they usually buy more cosmetics than they had planned to buy, compared to 28% of those 35 to 49, and just 16% of the women over 50.

Temptation is great

About a third of the regular drug store shoppers reported buying "more than intended," and in discount drug stores, 29% of the patrons reported succumbing to the temptation to buy more.

In comparison, about four out of every 10 K mart and other discount store shoppers said they purchased more products than they had originally intended to buy.

About a third of the shoppers who bought cosmetics from a door-to-door salesperson also reported buying "more than they had originally intended to purchase," and this was also the case for 30% of all department store patrons and 30% of all those women who bought cosmetics at food stores.

The more room the better

Buyers also point out that the larger department and discount stores like K mart have room for bigger and more colorful displays.

Buyers for discount drug store chains were "disappointed" by their relatively low proportion of "add on sales," and no one had an explanation that really could explain the findings.

It may be possible, however, that women who buy cosmetics in discount drug stores are always prepared to buy on impulse, so there is no way for them to measure if they do buy "more than intended."

Fairly satisfied

Buyers for the regular drug store chains, however, thought that given their limited space and limited assis-

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TRENDS

Gallup/DrSN cosmetics-fragrance shopper survey

Buyers look to manufacturers to stimulate scent sales growth

Ask any drug store retailer how fragrance sales have been lately and the chances are better than nine to one that you'll hear, "They're flat just like they were last year and the year before."

Buyers say the problem with the category is that manufacturers haven't been doing enough to stimulate growth. Buyers for chains like People's Drug, Harco, Revco, and SupeRx say the manufacturers aren't introducing enough new products, and that they're not doing enough advertising to build demand for the mass market fragrances.

Most buyers also tell *Drug Store News* that it's their feeling that women are not using fragrances any more often now than they were five or ten years ago.

Some buyers even think women may be using fragrances less often, primarily because they feel most fragrance manufacturers haven't done enough to make mass market fragrances "exciting" enough to create a surge in demand.

Evidence is in

Now *Drug Store News* has evidence to support at least some of these assumptions. Earlier this year, we commissioned a special consumer study of fragrance and cosmetic users.

We asked the world-renowned Gallup Organization to execute the study for us, which they did through a telephone survey last spring that reached 500 adult women, a sample that was representative of adult women throughout the national population.

The survey tells us quite a bit about the typical consumer of cosmetics and fragrance products.

Usage is flat

They tell us that retailers are right in thinking that usage among fragrance buyers is flat. Gallup found that 50% of all women who use either a perfume or a cologne are using it with the same frequency as they had several years ago.

Women who did not work outside the home and women who were 50 years or older are more inclined than others to be non-users. Some 16% of women 50 and older and 14% of those who did not work outside the home reported to Gallup that they never use fragrances.

On the positive side, however, younger women between the ages of 18 and 24 were much more responsive to fragrance products.

Just 3% of those 18 to 24 said they never used fragrances, while some 44% reported using fragrances "more frequently today" than several years ago.

Single mother is best buyer

The best candidate for a fragrance sale turned out to be the woman who was a single head of household with children to support.

Some 51% of all women in this category told Gallup they were using fragrances more frequently today than several years ago. Just 1.4% said they never used fragrances at all.

Most buyers and manufacturers told *Drug Store News* they were surprised at this distinction, although several speculated on possible reasons for it.

Most felt that perhaps a single woman with children but without a husband was trying to be more alluring to the men in her life. A few felt that perhaps many of these women enjoyed indulging themselves by treating themselves to a favorite fragrance purchase.

One buyer speculated that perhaps they were rewarding themselves for their independence, or perhaps, she reasoned, reaffirming their femininity.

Exception to the trend

Oddly enough, the same phenomenon of increased usage did not exist for single women without children. Just 22% of these women reported using fragrances more often today than several years ago, and 12% said they never used fragrances.

In fact, single women without children were very close to married women in their usage of fragrances.

Among married women, 22% said they were using fragrances more frequently, 51% said it was about the same, and 11% said they never used fragrances.

"Maybe married women and single women without children just have a less adventuresome attitude about the mystique of fragrances," one buyer concluded.

Many buyers also said they thought that fragrance manufacturers just weren't creating the advertising campaigns that could reach or perhaps persuade the vast majority of American women to buy more fragrance.

Several buyers said they thought the emphasis on sex in most fragrance ads was "too blatant" and that perhaps this type of advertising was "turning off" the heartland user.

Others said that sex should certainly be in fragrance ads, but that the message should be subtle and that it should stress the benefits of "warm, companionable relationships" rather than the sexual odysseys that a Calvin Klein fragrance commercial, for instance, evokes.

Race also has an impact

Race also had some impact on fragrance usage. For instance, 32% of all non-white users, reported using fragrances more frequently today then several years ago. In comparison, just 24% of white users gave that response.

However, buyers said they were "surprised" that Gallup discovered that 12% of all non-white females say they "never" use a fragrance.

One ethnic buyer speculated that perhaps age and regional differences were responsible for the higher number of non-users among non-whites.

"I know that we have many black female customers who are over 50 in our stores," he said, "and many of our stores are in the South and West, where using fragrances is not as common as it is in New York or Chicago."

Regional differences

Gallup found that there were indeed regional differences in usage. Nearly three out of every 10 women in the East and Midwest reported using fragrances more often today than several years ago, compared to just two out of every 10 woman in the South and West who gave that response.

Some 15% of the women in the South said they were non-users, compared to just 7% in the East and West who said they were non-users.

Oddly enough, household income did not have much impact on fragrance usage. Some 64% of all women living in households with income levels between $25,000 and $34,999 said their frequency of use had not changed, while five out of every 10 women with incomes over and under that amount also reported the same response.

Women living in households with incomes over $35,000 did report using fragrances more: 28% of these women did say they were using fragrances more today compared to 21% making between $25,000 and $34,000 and 25% making less than $25,000.

The differences, however, were so slight that most buyers said they didn't feel that usage was necessarily predicated on the availability of discretionary income, but was more a factor of convincing women that such purchases were "worthwhile" and that the increased usage of such products could enhance their lives either in terms of relationships or in terms of feeling better about themselves.

Several buyers said that women would buy fragrances more "if manufacturers could convince them there is indeed a pay-off."

Changes in how often women use fragrances

(Frequency of use compared to several years ago)

Frequency	All women	18-24	25-34	35-49	50 Plus
More often	24.8%	43.5%	30.5%	23.7%	17.2%
Less often	15.0	9.0	16.3	16.3	15.6
About the same	49.8	43.7	44.6	53.5	51.1
Never use	10.2	2.8	8.6	6.5	16.2
Don't know	0.1	1.0	—	—	—

Source: The Gallup Organization for *Drug Store News*

% of American women who use fragrances

(breakout by age groups)

	All women	18-24	25-34	35-49	50 Plus
Do use	89.8%	97.2%	91.4%	93.5%	83.8%
Never use	10.2	2.8	8.6	6.5	16.2

Source: The Gallup Organization for *Drug Store News*

Impulse buys based on price

Continued on page 47

tance for shoppers within their stores, getting 34% of their shoppers to buy more cosmetics than they intended was "pretty good."

Buyers for regular drug store chains also point out that there has been a lot of emphasis lately on improving the cosmetic departments within chain drug stores.

Several buyers said they felt the add-on sales for regular drug stores could be due to improvements in their cosmetics sections, including putting the department closer to the front of the store for greater visibility and upgrading the department to stress better brands and more seasonal promotions through header cards and related seasonal pre-pack displays.

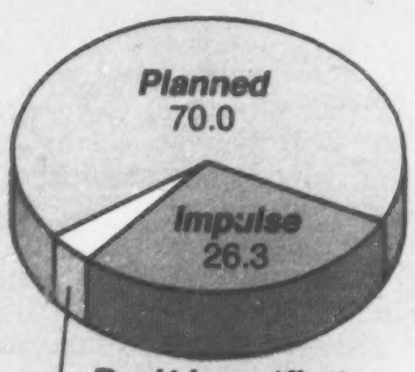
How stores rank on generating impulse sales

(% of shoppers who bought more cosmetics than they planned)

Stores where respondents most commonly buy cosmetics	% of shoppers who bought more cosmetics than intended
K mart	40.3
Discount store mass merchant	37.5
Regular drug store	33.6
Door to door	31.5
Department store	29.9
Food store	29.7
Discount drug store	29.3

Source: The Gallup Organization for *Drug Store News*

% of women who buy cosmetics impulsively



Source: The Gallup Organization for *Drug Store News*

Designer fragrances are easier to sell in chain drug stores when cosmetic clerks are friendly and helpful, retailers say.

Gallup/DrSN cosmetics-fragrance shopper survey

TRENDS

Fragrance consumers pick favorite brands

What are the favorite perfumes in America today?

According to the Gallup study commissioned last spring by *Drug Store News*, the favorite brand among American women today is Avon, chosen by one out of every 10 fragrance users.

Estee Lauder and Chanel fragrances share second place, each chosen by 7% of all female fragrance users, and Vanderbilt and Charlie are in third place, with a preference of 5% each among all fragrance users.

White Shoulders was picked as a favorite brand by 4% of all female users surveyed, and Giorgio was picked by 3%. Only Oscar de la Renta and Emeraude received better than a 2% mention among total users.

Most preferred fragrances (favorite brands by age groupings)

All Fragrance Users		18-24 years		25-34 years		35-49 years		50 Plus	
Brand	%	Brand	%	Brand	%	Brand	%	Brand	%
Avon	10.8%	Avon	16.5%	Avon	10.2%	Avon	10.4%	Estee	10.2%
Estee	7.1	Vanderbilt	6.7	Chanel	6.1	Estee	7.3	Avon	9.8
Chanel	6.8	Jovan Musk	6.6	Charlie	5.1	Vanderbilt	6.4	Chanel	9.5
Vanderbilt	4.7	Giorgio	5.1	Vanderbilt	4.8	Charlie	5.3	Emeraude	4.7
Charlie	4.6	Halston	4.1	Estee	4.8	Giorgio	4.7	White Shoulders	4.6
White Shoulders	3.5	Anais Anais	4.1	White Shoulders	4.8	Chanel	4.6	Charlie	4.2
Giorgio	3.3	Lauren	3.3	Oscar	3.7	Jean Nate	3.6	Chantilly	3.6
Oscar	2.6	Obsession	2.7	Obsession	3.4	Opium	3.2	Vanderbilt	3.0
Emeraude	2.1	Oscar	2.5	Halston	3.3	Oscar	2.5	Giorgio	2.4
Jovan Musk	1.8	Chanel	2.4	Aviance	3.2	White Shoulders	2.2	Shalimar	2.3
Jean Nate	1.7	Jontue	2.3	Lauren	3.1	Tabu	2.0	Oscar	2.2
Lauren	1.6	Lady Stetson	2.1	Enjoli	2.8	Shalimar	1.8	Youth Dew	1.9
Chantilly	1.6	Primo	2.0	Anais Anais	2.6	Jovan Musk	1.7	Jean Nate	1.5
Halston	1.6	White Linen	1.7	Giorgio	2.5	Obsession	1.7	Cachet	1.5
Opium	1.6	Estee Lauder	1.5	Jontue	2.3	Emeraude	1.5	Tabu	1.4
Obsession	1.6	Charlie	1.5	Forever Krystle	2.1	Jontue	1.4	L'Air du Temps	1.4
Shalimar	1.5	White Shoulders	1.0	Coty Musk	1.5	Tigress	1.3	Forever Krystle	1.3
Jontue	1.3	Opium	1.0	Wind Song	1.4	Forever Krystle	1.2	Arpege	1.3
Forever Krystle	1.3	—	—	Le Jardin de Max Factor	1.1	Lauren	1.1	Lutece	—
Anais Anais	1.1	—	—	Jean Nate	1.0	—	1.0	—	—
Halston	1.1	—	—	—	—	—	—	—	1.0
Arpege	1.0	—	—	—	—	—	—	—	—
Chantilly	1.0	—	—	—	—	—	—	—	—

Source: The Gallup Organization for *Drug Store News*

Interesting trends noted

However, when *Drug Store News* looked at the Gallup responses by age levels, there were some interesting trends.

Avon was still preferred by 17% of all users 18 to 24, but Jovan Musk and Vanderbilt were also popular: 7% of all users in this age bracket preferred them.

Buyers say that given these trends, Jovan Musk and Vanderbilt seem like the best brands to advertise during such promotional events as graduation and back- to-school. They're also strong brands to advertise in university markets and other regions with a high density of fairly young users.

Giorgio was also a favorite among 5% of all 18 to 24-year-old users, as were Halston and Anais Anais, both picked as favorites by 4% of all users.

Females in the 25 to 34 age group were also most partial to Avon. A total of 10% of all 24 to 34 year olds picked Avon as their favorite brand.

However, Chanel was chosen by 6% of all these users as a favorite; Vanderbilt, Charlie, Estee Lauder, and White Shoulders were each chosen by 5% as a favorite, and another 4% selected Oscar de la Renta.

Avon was again on top with 10% of all consumers between 35 and 49, but Estee Lauder was a close second with a 7% preference among users. Vanderbilt had a preference among 6% of users this age, and Charlie, Giorgio and Chanel were the preferred favorite among 5%.

About one out of every 10 users also picked the following fragrances as their most preferred brand: Estee Lauder (10.2%); Avon (9.8%), and Chanel (9.5%).

Continued on page 56

Discount and drug stores vie for 2nd-place scent outlets

Drug store buyers say they aren't surprised by this Gallup finding: Some 49% of all women fragrance purchasers sometimes buy their fragrances in a department store, and 43% of all purchasers say they "most often" buy their fragrances in a department store.

In contrast, according to Gallup, just 19% of all women say they sometimes buy their fragrances in regular drug stores, while 18% say they sometimes buy fragrances in a discount drug store.

Just one out of every 10 women say they "most often" purchase fragrances in either a regular or a discount drug store.

Not surprisingly, since the Avon brand was the most popular among all fragrance users, about 16% of all fragrance purchases were sometimes made in a door-to-door transaction; 14% of the women said they "most often" buy fragrances from a door-to-door salesperson.

Although some women said they sometimes purchased their fragrance in mass merchandise/discount stores like K mart and Wal-Mart, just 7% say they "most often" shop for fragrances in these types of stores.

While some women also say they sometimes buy fragrances in mass department stores like Sears and J.C.Penney, just 4% say they "most often" shop these stores for fragrances.

Stores where women buy their fragrances most often
(breakout by age groupings)

Place	All Purchasers	18-24	25-34	35-49	50 Plus
Department store	43.1%	40.4%	38.6%	44.6%	44.4%
Door to door	13.6	22.3	12.7	12.2	12.4
Reg. drug store	11.6	7.0	9.5	13.2	14.4
Low price/ discount drug store	11.4	10.3	12.8	9.6	11.9
Mass merchandise stores+	7.4	6.7	12.2	8.4	4.4
Mass dept. stores++	3.8	3.5	6.2	2.2	3.5
Specialty stores	2.2	—	2.1	3.2	2.5
Mail order	2.0	7.4	2.2	—	1.3
Food stores	0.9	—	0.9	2.7	—
Other	2.7	1.2	1.1	0.7	5.1
Don't know	1.4	1.2	1.8	3.2	—

+ K mart, Wal Mart, etc.
++ Sears, J.C.Penney, Montgomery Ward, etc.

Source: The Gallup Organization for *Drug Store News*

Why women shop one store most often for fragrances

Reasons	All Purchasers	18-24	25-34	35-49	50 Plus
Convenient/ easy to get to	35.9%	38.6%	27.6%	32.9%	42.9%
Only place that carries my brand	23.5	18.2	33.8	30.0	14.3
Lowest price	21.7	18.5	23.4	18.2	24.4
Service	2.3	3.2	2.9	0.7	2.8
Charge account	2.2	6.9	—	2.0	1.9
Gifts with purchase	1.0	—	—	0.7	2.3
Other	12.2	19.2	6.0	12.8	11.9
Don't know	4.1	3.3	7.2	6.4	1.0

Source: The Gallup Organization for *Drug Store News*

Income level important

According to the Gallup findings, some 69% of the women with a household income of $35,000 or more sometimes bought their fragrances in a department store.

In contrast, just 35% of those whose household incomes were $15,000 or less shopped department stores for fragrances sometimes.

Convenience counts

Convenience was the most common reason women had for preferring one store over another for fragrance purchases.

A total of 36% of the respondents said convenience was why they shopped for fragrances at one particular place; 24% of the women said they shopped one outlet because it was the only place near them that carried a particular brand.

Just 22% said they shopped a specific store for economic reasons. However, saving money was the most important reason for shopping a store among customers who bought their fragrances in discount drug stores. The majority of those who shopped regular drug stores, 59%, say it was convenience that made them buy there.

TRENDS

Gallup/DrSN cosmetics-fragrance shopper survey

Consumers suggest more scent variety in drug stores

Most drug store buyers think their stores could generate more fragrance sales if they could just deliver better service to their customers.

However, the Gallup survey found that, surprisingly , service is not as big an issue with fragrance shoppers as variety is.

Some 17% of all consumers who purchased fragrances said that drug store executives could make their stores better places to shop for fragrances if they broadened the variety of their selections.

Bigger selection desired

Among consumers who sometimes bought their fragrances in traditional drug stores like Walgreens and Eckerd, 13% felt that broadening the fragrance selection would make the stores better places to shop for fragrances.

Service was only mentioned as a possible area of improvement by 6% of all shoppers, and by just 4% of all shoppers who had bought some fragrances in a regular drug store.

Service was most important to consumers living in households with incomes between $15,000 and $34,999 a year (9% of fragrance buyers in this group wanted better service), and for people between the ages of 25 and 34 (7.9% mentioned service as a way of improving drug store fragrance sales).

Difference cited

In contrast, however, 32% of all consumers 18 to 24 wanted more variety in drug stores, while 16% of that age group also said they wanted more competitive pricing.

A total of 14% of all consumers who were already buying fragrances in regular drug stores said the fragrance departments were "fine as they are."

Some 23% of all users who regularly bought their fragrances in a discount drug store wanted more competitive pricing, while another 13% wanted more variety and 14% wanted more colorful displays.

What drug stores should do to improve fragrance sales

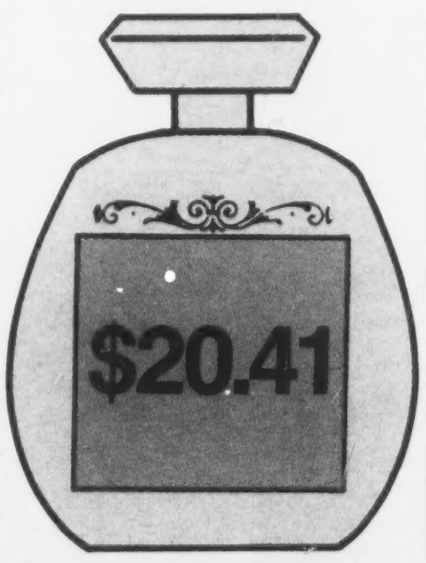
(Breakout by age groupings)

Should do	All Purchasers	18-24	25-34	35-49	50 Plus
More variety in selections	17.4%	32.4%	17.5%	15.3%	13.1%
More competitive pricing	12.9	16.1	16.2	12.9	9.0
Better displays	8.9	7.6	11.9	8.6	8.4
Carry better brands	7.8	7.8	11.8	11.4	3.0
Give more service assistance	5.9	2.0	7.9	5.2	5.1
Give more samples	5.8	11.2	7.5	4.1	4.1
Offer more convenience	0.9	—	1.9	—	1.3
More efficient service	0.8	—	1.1	—	1.8
Do nothing/fine as is	6.4	5.3	5.2	5.2	8.3
Other	7.5	5.3	6.0	10.2	7.8
Don't know	30.2	17.2	17.8	32.6	40.6

Source: The Gallup Organization for *Drug Store News*

How much women spend for their fragrances

(average purchase)



Source: The Gallup Organization for *Drug Store News*

Fragrance gifts inspire new preferences

Recommendations, samples spur scent trials

Over a third of all women who have a favorite perfume reported that it was first given to them as a gift.

About 17% said they first tried their favorite brand based on a recommendation from a friend or family member. Another 12% said they first tried their favorite fragrance in a sample package.

Four in 10 received gift

Women over 25 and women who are married are the most likely to have been given their favorite fragrance for the first time as a gift. This was true for about four out of every 10 women in the Gallup survey.

Women 18 to 24 and single women more often than others reported that they first tried their favorite on the recommendation of a friend. Gallup found that 40% of the 18 to 24 year olds and 23% of the single women first tried their favorite fragrance on a recommendation.

Non-whites were more likely than whites to have tried their favorite fragrance in a sample package. Gallup discovered that 26% of the non-whites first tried their preferred fragrance this way, compared to 10% of the whites.

Non-whites were also likely to have first received their favorite fragrance as a gift. A total of 21% of the non-whites reported first trying their favorite fragrance this way, compared to 38% of the whites.

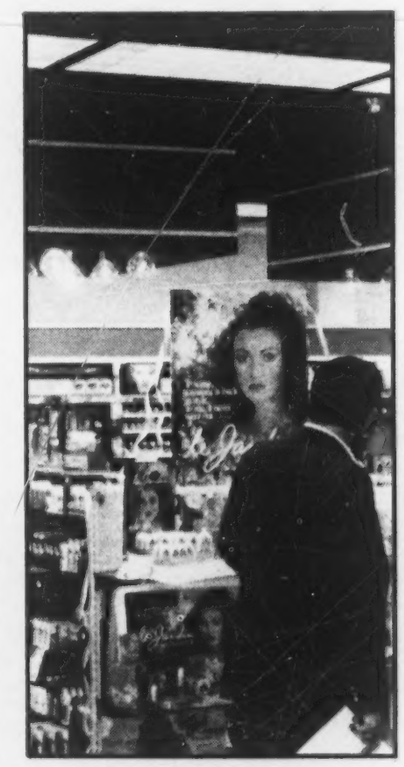
Purchases average $20

More than one out of every five fragrance users (23%) also reported that they never purchase either perfumes or colognes for themselves. But women who do buy their own fragrances say they spend an average of $20 for their purchase.

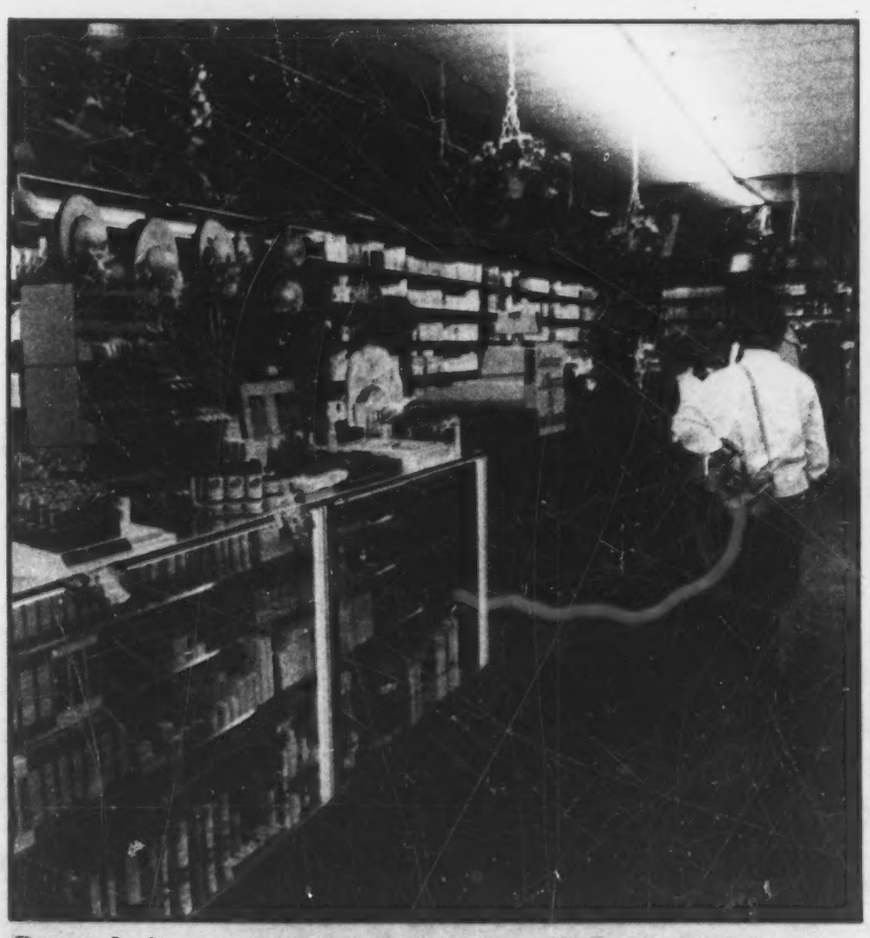
Only 51% of the women who bought their own fragrance said that when they first bought it, they had planned to make the purchase. But 45% did report that their first purchase was made impulsively.

Impulse sales

Two out of every 10 women who did make an impulse purchase said it was because they had tried a sample of the fragrance. Another 14% said it was because of the price at the time, while 12% said their impulse purchase was motivated by a display. Just one out of every 10 said the sale was motivated by convenience.



Consumers, looking for "value" in fragrance purchases, are choosing low to mid price brands.



Some chain managers have their sales personnel brighten up their cosmetic/fragrance departments by spraying the areas around them with popular fragrances.

Favorite perfumes emerge

Continued from page 50

Other favorites were Emeraude, preferred by 4.7% of users over 50; White Shoulders, preferred by 4.6%, and Charlie, preferred by 4.2%. Just 3% of all consumers over 50 chose Vanderbilt as a favorite brand.

Several ADF brands named

Several ADF brands were mentioned in the Gallup survey, but only one brand, Primo, was chosen by 2% of certain age group users as a favorite. The users who mentioned Primo the most often also were between the ages of 18 and 24, and they tended to live in households with incomes between $15,000 and $24,999 a year.

Generally, there was little difference among whites and non-whites as to brand preferences. However, more non-whites than whites (16.6% to 9.9%) preferred Avon, while 9.2% of all non-whites preferred Charlie compared to 3.9% of all whites.

More non-whites also preferred Giorgio. Some 6% of non-white users picked Giorgio as their favorite fragrance, compared to 2.9% for white users. However, white females showed a slightly higher preference for White Shoulders; some 3.7% of all whites preferred this brand compared to 1.9% of all non-whites.

Females who lived in the South had the strongest preference for the following brands: Chanel (preferred by 10% of all Southern women), Avon (8%), and Charlie (6.5%).

Regional differences

Consumers who lived in the West had these preferences: Avon (chosen by 14.6% of all users as a favorite), Estee Lauder (10.8%), and Chanel (7.5%). In the midwest, the highest preferences were for Avon (14.4%), Estee (9.9%), and Chanel (6.2%).

Females living in the East preferred Avon (7.2%), Charlie (6.7%), Vanderbilt (6%), and Giorgio. (5.7%).

Fight for $2B film market heats up

New baby boom and switch to 35mm spur competition

Americans took nearly 14 billion photos last year and bought some 731 million rolls of film in the process. Those numbers, and an annual growth rate of about 6%, have both film manufacturers and retailers locked in a pitched battle for market share.

The $2 billion film market is being roiled as never before by a variety of competitive and demographic factors. One of the biggest is the advent of a new baby boom among couples with the disposable income to drive sales of photo equipment and film. In fact, families spend an average of $222 in a baby's first year for camera and film, making photography the No. 1 nonessential first-year expense, according to a study by American Baby Incorporated.

The enormous shift toward the 35mm camera format is also having a positive effect on film sales, since the more serious users of 35mm film tend to take more pictures. According to industry estimates, 35mm now accounts for more than half of all film sales, and that number may grow to 70% to 75% by the end of the decade. The growth is coming at the expense of disc and other formats.

The trend among more and more shutterbugs toward 35mm photography is good news to film retailers in another way, as well. Those using the format tend toward "dramatically" higher purchases of enlargements when processing their film, according to the Photo Marketing Association.

Competition heats up

Film manufacturers have jumped into the competition for share with renewed determination. The entry of 3M into the branded side of the business with its recently introduced Scotch brand film, and the more aggressive promotional tactics being brought to bear by industry giants like Eastman Kodak and Fuji, has made competition more heated than ever.

Kodak, for instance, has launched the biggest summer campaign in its history tied to discounts at theme parks nationwide. At the same time, the photo giant has made big strides in support and marketing programs to retailers.

Kodak is facing aggressive competition, however, from Fuji Photo Film, 3M and other companies. Fuji, now the official sponsor of major league baseball, has enlisted Mickey Mantle as company spokesman. This summer, Fuji is promoting its color print film with "Home Run Game," featuring in-store materials and prizes, and a consumer rebate program.

Meanwhile, 3M is trading heavily on its powerful Scotch brand color film, introduced last year.

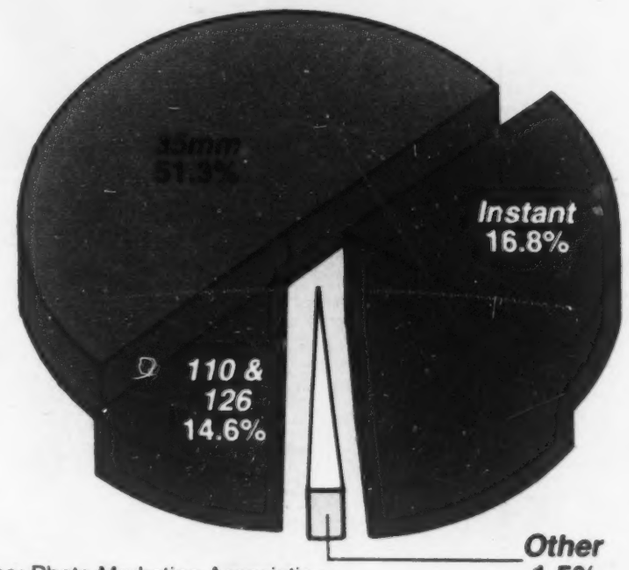
Chain drug retailers have given high marks to all three firms. At May's Drug Stores, for instance, a company spokesman reported that Kodak film sales were up a hefty 40% in 1986, and said he was "very pleased" with the quality and sales of Scotch brand. And on the West Coast, Fuji film has grabbed nearly 50% of the film business at Raley's Food and Drug Centers, the company reported.

Private label film

Private label film is also showing continued strength in many parts of the country. Said photo buyer Paul Bruno of Alabama-based Big B: "The private label program we're in with 3M is excellent, with exceptional quality film and a 20% across-the-board discount for our customers. Sales in private label film are way up for us over last year and probably account for about 25% of our business now."

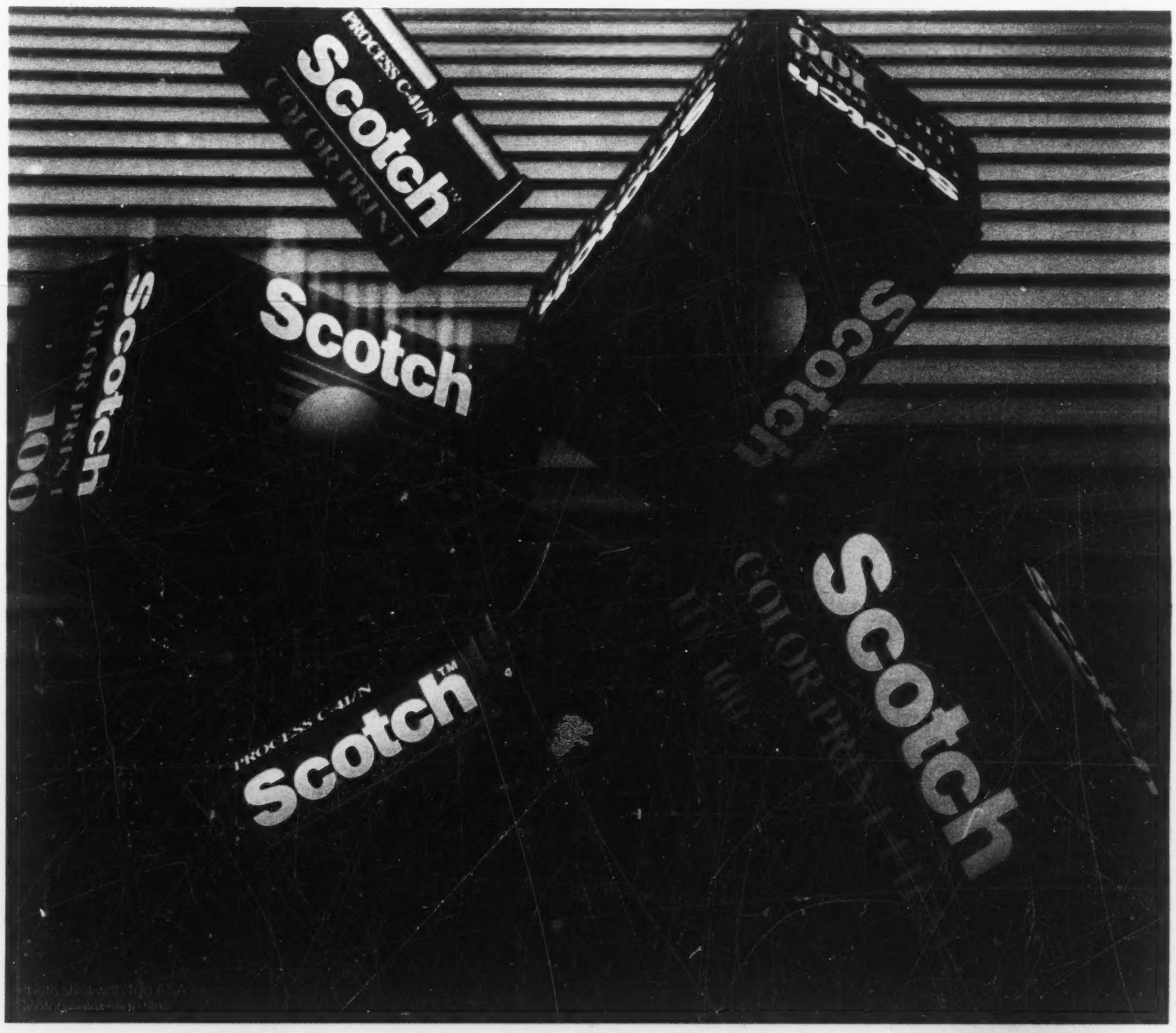
The continuing strength of instant cameras from Polaroid, including its successful Spectra system, has also helped drive ancillary film sales at drug store counters. The firm estimates that Spectra camera users consume film at a rate 40% higher than that of other Polaroid camera users.

1986 film sales
(Market share by format)



Source: Photo Marketing Association

Even our slowest film is fast.



Very fast. A recent study shows that consumers are immediately motivated to try Scotch® color film because of its competitive price.

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Study: DPP leaders are cigarettes, batteries, magazines and H&BA

NEW YORK--Drug store executives might gain insights from a direct product profit study of convenience stores and supermarkets that concluded that DPP can vary widely from category to category, and that gross margin can be misleading as a profits indicator.

Cigarettes, batteries, magazines and H&BA items were among the highest ranking categories in DPP in both types of stores in a study conducted by the Touche Ross accounting firm and sponsored by the Magazine Publishers Association.

A DPP analysis of all product categories in one representative store from each of the Circle K, National Convenience Stores and Minute Mart convenience chains concluded that the top six categories in DPP were cigarettes, fountain, beer, groceries, H&BA and magazines. Soft drinks, which ranked third in sales dollars and fifth in gross margin profits, dropped to seventh place when ranked by DPP, because of the high cost of refrigerated display space.

Magazines, ranked thirteenth by gross margin, moved up to sixth in DPP without factoring space needs, due to their high level of retail display allowances and their relatively high tickets. They moved to fourth place, behind cigarettes, fountain and hot drinks, when DPP dollars were related to square footage display needs.

While the DPP potential of cigarettes has become widely recognized at drug chains, mostly due to vendors' heavy promotion, magazines haven't received the same publicity. That may be changing in the wake of results such as these:

"DPP provides a much more reliable view of the profit power of magazines than does the more simplistic approach of gross margins alone," commented William Gorog, president of the Magazine Publishers Association.

Among the conclusions that stemmed from the survey was a recommendation that the stores promote H&BA more to increase profits, since it has a high DPP rating per unit, but relatively low volume.

The second survey looked at sales data from two stores each of the BILO and Tom Thumb supermarket chains. Stores surveyed had weekly sales volume of between $216,000 and $435,000. The study focused on general merchandise and checkstand categories, accounting for weekly volume from $11,000 to $26,000.

Cigarettes, batteries, stationery and magazines were in the top four slots for DPP per square foot. While some product categories posted high results as producers based on gross margin or on DPP results regardless of space needs, they slipped in the standings when DPP was measured per square foot. For example, candy and gum were third in profitability based on gross margins, greeting cards were fourth, and video rentals were sixth. Greeting cards ranked second in DPP without factoring in space requirements. But cards fell to seventh position in DPP per square foot, and video rentals to fourteenth place.

On the other hand, some categories gained in status by the DPP measurements. Batteries, for example, ranked eleventh in gross margin return but second in profit generation after the DPP model accounted for such factors as allowances and deals and costs of product handling, including labor, inventory, the cost of store space used, and the cost of shrink.

Lighters, along with automotive, video rentals, and music, were the lowest performers.

Supermarkets, the study concluded, should promote books and light bulbs, add high-value titles and space to magazines, and give stationery the best location for back- to-school displays.

It said video rental displays should be consolidated, as should film and lighters, and stores should consider eliminating music.

	Magazines	Paperbacks	Combined Total
Supermarkets	53.9%	15.1%	39.0%
Book stores	7.4	54.1	25.4
Drug stores	8.8	8.3	8.6
Newsstands	11.2	1.9	7.6
Discount depart. stores	1.9	14.6	6.8
Convenience stores	10.3	0.6	6.6
Other	6.5	5.4	6.0

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Report on generic substitution

INSIDE PHARMACY

Generic growth spurs increased bidding activity

Continued from page IP11

Shore in the launching of Distribu-Net, an electronic price quotation system for buying and selling generic drugs.

According to Shore, president of the Dania, Fla.-based computer network, his system can offer retailers bids from as many as 30 generic companies with one phone call.

A retailer who is a subscriber to the program can request a bid on one or more generic drugs through the use of a computer modem (a device that sends electronic signals from one computer to another through regular telephone lines). The list is sent directly to Distribu-Net's computers and put out to bid to all the generic companies on the system, which Shore says currently number about 30. In a matter of 24 hours, an on-line bidding service is completed, with subscribers receiving pricing information on available generics, a listing by form, potency, size, vendor, NDC codes and other important information related to the requested drugs.

Shore said that while large chains will probably do business directly with generic companies to arrange the best price quotes, "the heart and soul of the system is really for the smaller chains and those chains that are mid-range in size."

Pilot phase successful

Distribu-Net is currently running through a pilot phase that Shore said is "very successful so far. This is the type of service that becomes very important once a 'critical mass' is reached," said Shore.

Shore said that a typical price quote will contain 15 drugs, and savings can be as high as 100% over purchasing the same drugs without a look at all the competition on one screen.

In addition to its electronic marketplace, Shore has expanded Distribu-Net's services by the addition of an electronic mailbox for "the inside track on special sales and promotions industrywide," while providing an instant link to suppliers. The company's latest feature is an electronic newscast that Shore describes as "the best way to get timely industry news and FDA ANDA approval information."

Sophisticated bidding practices like Distribu-Net and Bergen's "Generic Source" have taken their toll on the market share of branded drugs.

Behind price increases

According to Pharmaceutical Data Services, generics tend to take about 30% of market share away from the brands. Dick Barnes of Standard Drug believes that is the underlying reason for the price increases in brand drugs, which is currently the subject of Congressional hearings.

"There's no way to justify those price increases with R&D," said Barnes. "It's a cop-out as far as I'm concerned for keeping the dollars the same as the drug dies."

In fact, Barnes said, "If you shook it all down, the public hasn't saved anything, because whatever's been saved has been offset by increases in the drugs that have been copied."

Ken Anderson of Medicare-Glaser said that in the future, how much of the market gets taken over by generics is largely up to the brand manufacturers. If the brand manufacturers are successful in bringing "new, innovative drugs " to market, they will maintain their dominance. If not, retailers are likely to get behind the generic.

Most frequently substituted brand products

Product	Total	Independent	Chain
Tylenol with Codeine #3	31%	35%	30%
Hydrodiuril	13	12	13
Amoxil	12	6	13
Motrin	10	9	10
Persantine	5	6	5
Vibramycin	3	2	3
V-Cillin-K	3	1	3
Lasix	2	4	2
Darvocet N-100	2	1	2
Inderal	2	1	2
Valium	1	1	1
Pen Vee K	1	1	1
Septra	1	1	1
Bactrim-D.S.	1	2	1
Vibra-tabs	1	1	—
E.E.S. 400	1	1	—

Note: Percentages may not add to 100% due to rounding
Source: Lebhar-Friedman Research

Brand vs. generic potential

	Total	Independent	Chain
Total generic potential as written*	73.0%	75.5%	72.2%
Total generically filled	55.0	56.6	54.5
Written and filled generically	20.0	22.0	19.3
Written brand with generic substitution/filled generically	35.0	34.6	35.2
Total brand potential as written**	80.0	73.5	72.2
Total brand filled	45.0	43.4	45.5
Written brand only and filled by brand	27.0	24.5	27.8
Written brand with generic substitution/filled by brand	18.0	18.9	17.7

*Total generic potential as written = generically written *plus* brand, but generic substitution allowed
**Total brand potential as written = brand only, no substitution *plus* brand, but generic substitution allowed
Source: Lebhar-Friedman research

Generics continue to stalk brand pharmaceutical firms

Generics continue to make strong inroads into the once brand-dominated prescription drug market.

A new study by *Drug Store News* on generic substitution patterns by pharmacists shows that two-thirds of all prescriptions written for a branded drug with "substitution permitted" indicated on the prescription are actually filled with a generic.

But according to the study, which was based on interviews of 600 chain and independent pharmacists, although it appears on the surface that branded companies are losing their battle for market share, they have a potential to grab an 80% share of the prescription drug market, as compared with a 73% potential for the generic companies.

The study uncovered that, on average, over half (53%) of all prescriptions are written for a brand, but with generic substitution allowed, while an additional 27% of prescriptions filled by pharmacists are written for the brand drug only, with no substitution allowed. In total, that gives the branded companies an 80% (53% + 27%) potential for getting prescriptions filled with their products.

The potential for the generic companies is somewhat lower (73%) because, while the potential is the same as for the branded drugs in the number of prescriptions written for the brand with generic substitution allowed (53%), only an additional 20% are written generically (53% + 20%).

Most-substituted categories

When pharmacists who participated in the survey were asked to choose the most-substituted therapeutic categories from a list of 14, more than half reported that generic substitution was common to 12 of the 14 categories on the list.

Four of the most commonly substituted categories were analgesics (reported by 92% of the pharmacists), antibiotics and diuretics (both 91%) and tranquilizers (88%). Other frequently substituted categories were anti-inflammatory agents (84%), cough medicines (81%), antihistamines and antiarthritics (79%).

When the pharmacists were asked to pinpoint the one category that they believed was most substituted, antibiotics took top honors with 35% of the vote, followed by analgesics with 26%.

One in five (20%) pharmacists said that substitution was so widespread he or she could not identify any one category as being most substitutable.

Brands most substituted

By far the most substituted brand product was Tylenol with Codeine #3, reported by nearly one-third (31%) of pharmacists.

The next most heavily substituted branded drugs were Hydrodiuril (reported by 13% of the pharmacists), Amoxil (12%), Motrin (10%) and Persantine (5%).

One interesting fact uncovered by the survey was that more than twice as many chain pharmacists were likely to substitute Amoxil as were independents.

Why pharmacists substitute

Over 80% of the pharmacists surveyed said that cost savings to the customer and therapeutic equivalency were "very important" in their decision to substitute. Another reason reported by a smaller percentage of pharmacists (69%) was patient request of a generic drug.

Other reasons given were product availability (rated by 55% of the pharmacists as "very important"), improving profit (42%) and store/company policy (31%).

The study showed that rebates and other incentives played a very small role in the pharmacists' decision-making process, with only 4% of the sample citing that reason as "very important." But while, overall, rebates and incentives did not score high, these were more of a factor for independents than chains.

When asked to pick the one most important factor in their decision-making process, nearly half (46%) picked cost savings to the customer. Other "most important" factors included therapeutic equivalency (chosen by 20% of the pharmacists), patient request (13%) and improved profit (9%).

Substitution trends

As one might expect, a whopping 94% of the pharmacists surveyed thought that generic substitution had increased over the past two year, while 92% thought it would continue to increase over the next two years. Both chain and independent pharmacists estimated that substitution, on average, had increased 33.7% over the past two years and will increase 27.2% over the next two years.

Most often substituted therapeutic categories

Category	Total	Independent	Chain
Antibiotics	35%	26%	39%
Analgesics	26	28	26
Diuretics	7	8	6
Anti-inflammatory agents	4	6	3
Cardiovascular agents	3	5	2
Tranquilizers	2	1	2
Cough medicines	1	1	1
Antihistamines	1	2	—

Note: Percentages may not add to 100% due to rounding
Source: Lebhar-Friedman Research

INSIDE PHARMACY

Report on generic substitution

Most important reasons pharmacists gave for substituting a generic drug

	Total	Independent	Chain
Cost saving for customer	46%	48%	46%
Therapeutically equivalent	20	16	21
Patient request	13	12	13
Improve profit	9	12	8
Store/company policy	6	2	7
Third-party requirement	2	5	1

Source: Lebhar-Friedman research

Study indicates generic cost savings uppermost in consumers' Rx priorities

When pharmacists were asked to give their perceptions of the way generics are viewed by the average consumer, they overwhelmingly said that consumer reaction to generics is positive.

According to the exclusive *Drug Store News*' study on generic substitution, 82% of the pharmacists polled believed that generics are more accepted today by consumers than ever before. Only 14% said they thought that consumers' reaction to generics was neutral, and an even smaller percentage (4%) believed that consumer attitudes toward generics were negative.

Six in 10 pharmacists cited a cost savings to the consumer as the major reason for their positive reaction to generic drugs. A second major factor, the study showed, is that consumers believe generics to be therapeutically equivalent to brand drugs. Another 10% of the pharmacists believed that reassurances given by the pharmacist/physician was also a driving force behind consumers' acceptance of generics.

Nearly all (91%) of the pharmacists interviewed said that today's consumer is asking more questions about generic drugs than ever before.

Pharmacist confusion

But the study showed that while pharmacists generally agreed that generics are good for their business, they were also somewhat confused over state formulary restrictions.

According to the study, half of all the pharmacists interviewed believe that the state in which they practice has a formulary, but when examined by state, there was often disagreement among the pharmacists as to whether the state does, in fact, have a formulary.

The study also showed that, by and large, the generics companies are doing a good job of getting their product into distribution.

Among those pharmacists who do practice under a state formulary, 70% felt that it was "not too" or "not at all" difficult to find acceptable generics listed in the formulary. Only 6% said that it was "extremely" or "very difficult" to find an acceptable generic.

Best suppliers

The pharmacists were asked to choose those suppliers they felt were "most readily available" with their product. Fifteen of the 21 suppliers investigated were considered to be among the "most readily available" by 40% of the pharmacists.

While 11 generics suppliers were cited by more than 50% of the pharmacists as being "readily available," only two grabbed more than 70% of the pharmacists' vote. They were Rugby (79%) and Barr (75%).

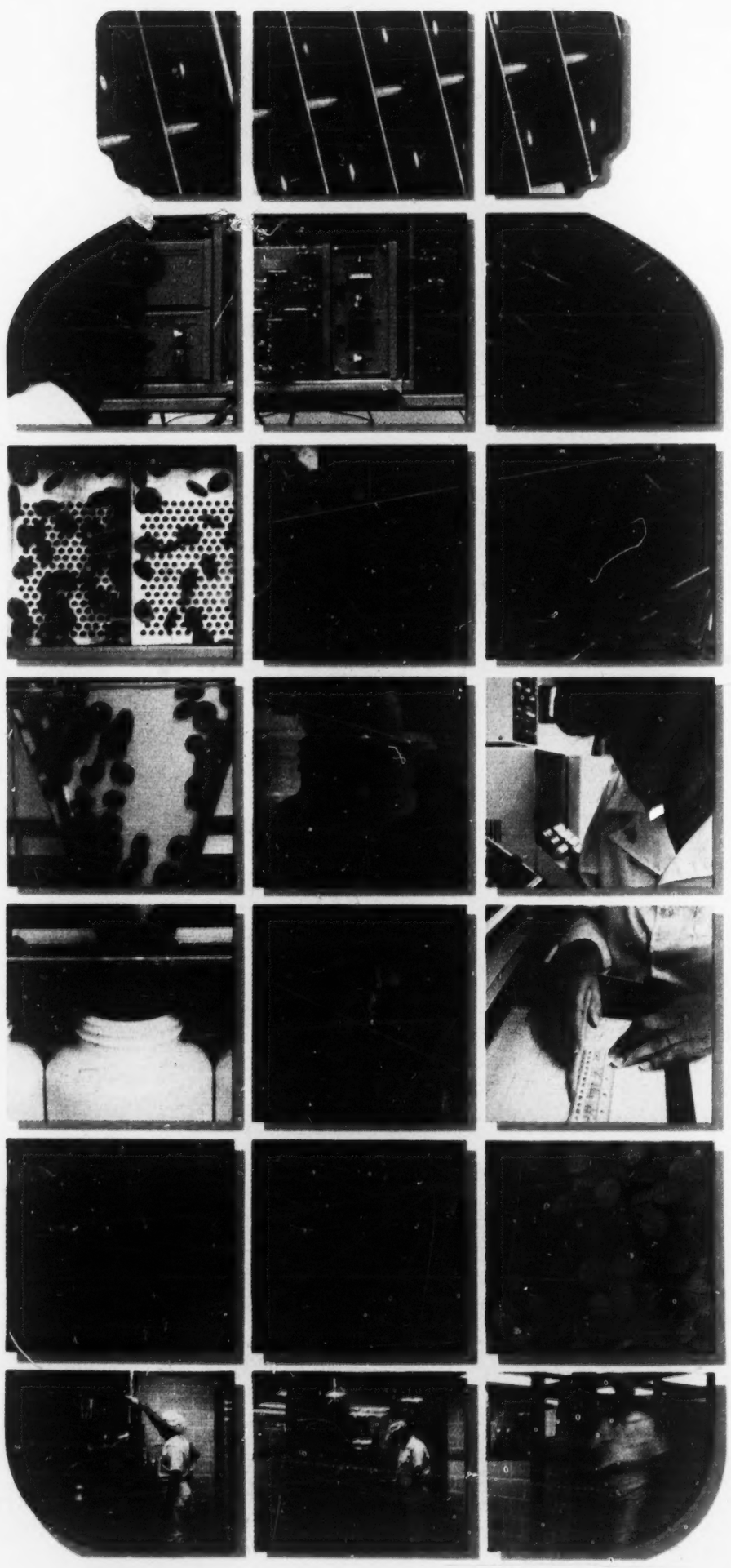
Study vital statistics

The stores in the sample fill an average of 70.3 new prescriptions and 53.3 refill prescriptions, with chains filling more prescriptions than independents. An average 39% of total annual sales are generated from prescriptions.

The pharmacists queried are most likely to hold a B.S. degree and have an average of 15.2 years of retail experience (independents having more experience than chains).

A third of the independents interviewed are store owners, and more than half of the chain store pharmacists are pharmacy managers.

What Goes Into A Bolar Generic?



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INSIDE PHARMACY

Branded multi-vitamins: Staple of chain promotions

The byword in vitamin performance is stability.

While chains such as Harco and Kinney will emphasize private label promotions to reach low price points and earn greater profits, many buyers are sticking to promotions of branded multi-vitamins and supplements to meet demand.

Austin Drugs, for instance, keeps vitamin sales up by promoting branded multi-vitamins such as Lederle's Centrum, Squibb's Theragran M, and Parke Davis' Myadec, along with the Nature's Bounty and Nature Made natural vitamin brands, according to Tom Fannon, pharmaceutical buyer.

"Most of our stores are in fairly affluent areas, so the price point (of brands) doesn't make that much difference," noted Fannon.

Less affluent markets

Yet branded vitamins are also selling well in less affluent Southeastern markets, according to a buyer at one Southeastern drug chain.

"We're promoting more now, because (the category) represents a lot of dollars," the buyer noted. The chain's advertising this year will group up to six branded items per ad "to give the customer a choice," he said.

Although brands are holding their own, according to chain drug buyers, vendors are launching or pondering introductions of restaged products to stimulate what has been relatively flat growth in recent years. Parke Davis is "taking a look at the possibility of restaging Myadec to capitalize on some trends we see in the market," a Parke Davis merchandiser said. It could involve a reformulation, new packaging or a repositioning, she said.

Rexall Group is strengthening and updating the formula of its Plenamins line in a new product called Plenamins Plus that will hit shelves Sept. 1. "We feel the time has come for some new entries," said Jerry Rayman, executive vp, Rexall consumer products division.

Repositioning expected

And retailer souces said they anticipate a repositioning of Theragran M to surface this year, perhaps involving repackaging, since Squibb has been offering closeout-style deals. Squibb's plans for the product could not be confirmed with the vendor.

"The entire category has a slow and steady growth rate ahead of it. What we're looking at is growth through segmentation" with revised formulas targeted at specific groups," the Parke Davis spokesman explained.

Chains are striving to improve their private label lines that typically garner 10% better margins than branded and sell at 20% to 25% lower price points.

Kinney will be giving its Ford Labs-made private label vitamins more promotional exposure when it adds an extra page for private label advertising to its circular. It has also changed its pricing strategy to capture more private label profits by standardizing its prices against the national brands, according to buyer Bob Burtis.

"We were low-balling things. But last year we changed from competitive pricing to pricing against the national brand," Burtis noted. Now private label is priced for at least a 25% savings against the brand.

"I've found sales haven't been hurt that much," Burtis noted.

Buy-one-get-one-free

Burtis is opposed to the trend of buy-one-get-one-free promotions since "all you're doing is cutting your gross."

But such promotions have the advantage of keeping the private brand in the forefront and capturing new customers, in the view of Austin's Fannon, who runs them twice a year.

Likewise, Harco pushes its Ford and Fresh Labs-made private label with the two-for-the-price-of-one strategy that has helped boost its vitamin sales last year 15%, said buyer Keith Connell.

Chains have had mixed results with daily packs. One Northwest drug chain has posted steady sales of the Your Life line with packs for men, women, stress and seniors, with a seven-day supply of women's vitamins on special for $2.29.

Promotes via tabs

This chain achieves strong growth with the Nature Made natural vitamins line promoted through four-page tabs and in coupon books, where such popular supplements as vitamins C and E are also featured.

The coastal chain prices its private label against rivals such as Fred Meyer and Osco.

At Tom Thumb/Page, daily packs by P. Liener and Nature Right have done "extremely well" when put next to the Page Drugs stores' 12- to-16-foot, pharmacy-adjacent vitamin display, said buyer Jim Kyle.

Multi-vitamins stay strong

Form	1986 retail sales (in millions)	Share
Multi-vitamins	$1,170	40%
Calcium/minerals	556	19
Vitamin C	380	13
B-complex/stress	322	11
Vitamin E	263	9
Other	176	6
Protein	58	2
Total	2,925	100

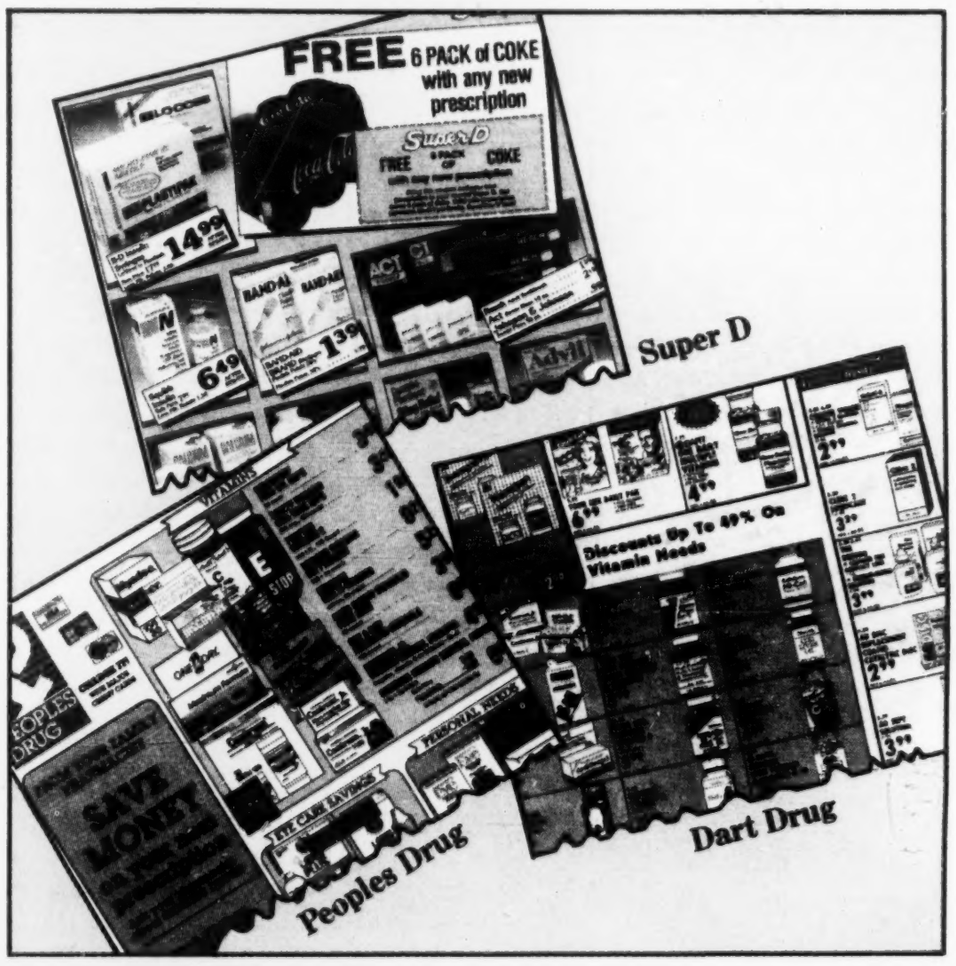
Source: Business Communications Co., Inc., Norwalk, Conn.

Health food store lose vitamin share

(percent of retail sales)

Category	1983	1985
Drug store/Discount store	31%	32%
Supermarkets/Food	16	20
Health food stores	29	25
Direct selling	12	13
Mail order	8	7
Other	4	3

Source: Council For Responsible Nutrition


FREE 6 PACK of COKE with any new prescription
Super D
Peoples Drug
Dart Drug
Discounts Up To 49% On Vitamin Needs
SAVE MONEY

Retailers see mixed success with fish oil products

Kinney Drugs' experience last year with fish oil is emblematic of the mixed success chains are experiencing with the product.

Kinney posted disappointing sales in March when it advertised Parke Davis' (Warner Lambert) Promega in a weekly newspaper ad. But it then gained two to three times the sales of that promotion in a May promotion of Squibb's Proto-chol, which was pushed via mail-out circulars, according to buyer Bob Burtis.

"I'm not sure if it was the vehicle or the product" that produced larger sales, said Burtis. As a result of this experience, Burtis isn't ready to jump wholeheartedly onto the fish oil bandwagon. He's taking a wait-and-see attitude this year.

"The fish oil sales do seem to be increasing, but they're not doing what they say it's doing," Burtis concludes.

Vendors' projections

Indeed, vendors' projections for 1987 fish oil sales growth seem somewhat wishful, based on buyers' reports that the category isn't making waves.

Spokesmen from several major fish oil vendors said that retail sales—in the $20 million to $25 million range in 1986—will hit $100 million this year.

"You've got to have $100 million to split up three ways" and make the product profitable for Squibb, Parke Davis and Thompson Medical, the three leading branded vendors, noted one manufacturer's spokesman.

Since drug chains, and mass merchandisers in general, are the leading outlets for the product, turns are going to have to pick up this year to meet that sales goal.

"It's not anything great," said Tom Thumb/Page buyer Jim Kyle, who stocks his shelves with Promega and private labels by R.P. Scherer and P. Leiner. Kyle rejected Squibb this year to avoid the vendor's on-pack coupons, which he feels date the product on the shelf.

Sees exposure cutback

"It has not been the product that a lot of buyers and manufacturers anticipated," said Harco buyer Keith Connell, who carries Squibb, Thompson Medical and a Max Epa private label from Ford Labs. Connell envisions cutting exposure if vendors pull back on advertising support, which he thinks is a possibility.

With Promega and Proto-chol, Austin Drug is looking for an upturn. "They were great out of the gate, but they seem to have waned a little bit," said buyer Tom Fannon, who is keeping the same number of facings.

Fannon thinks it's too early for private label. "I'm playing cautiously because of the fiber category. It went very well for about six months and then flattened out in the diet aid segment," Fannon noted.

Some buyers were upbeat over Parke Davis' move creating Promega Pearls to compete on the lower price level, with the 300mg brands. Price resistance has been a key factor limiting sales, some said.

Concern over Pearls

But buyers also express concern that the Pearls' formulation doesn't send a clear price/value signal to the customer. While the Pearls give more capsules at a lower price, the recommended daily capsule intake is higher. Also, as one buyer noted, recommended doses remain "very nonspecific."

Press reports discussing studies that reflect negatively on fish oil's alleged benefits have impacted sales at certain chains, their buyers felt.

Vendors say a spate of positive medical findings are surfacing and professionals will be putting more of their weight behind this provocative product.

Said Jenny Armstrong, product manager for Parke Davis' Promega:

"I think you're going to see a lot more positive press. The clinical evidence is stronger and stronger every day, and I think that will continue to support sales growth, as professionals become educated in the category."

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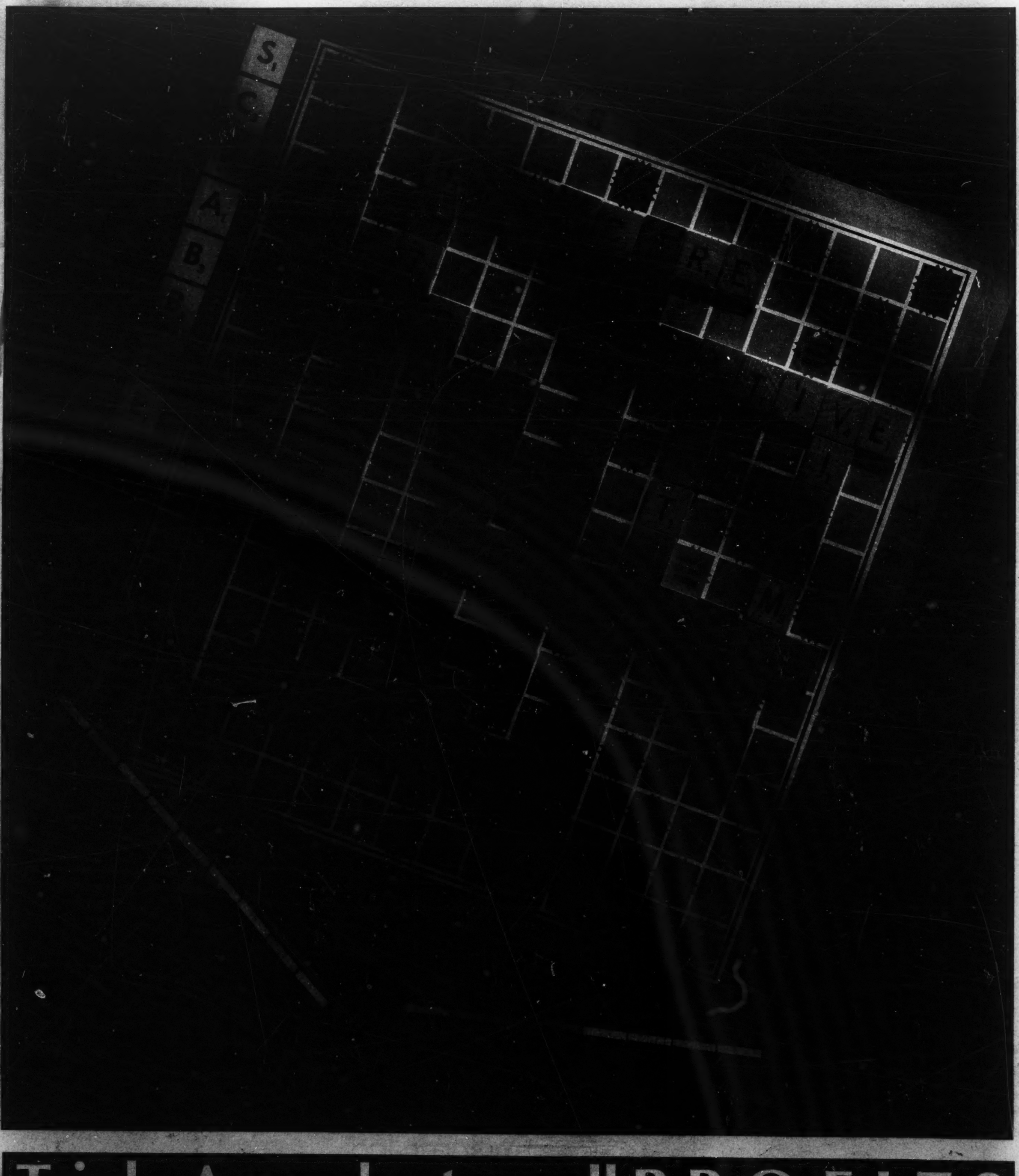
OR

DRUG STORE NEWS

Vol. 9/No. 14 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. July 6, 1987



Triple A products spell P-R-O-F-I-T-S

See special section pages 15-73

Cohen's Capsules:
Physician dispensing battle is just beginning—p. 81

Trends:
Triple A study shows leading products—p. 15

C.E. Lesson:
Diabetes mellitus treatments discussed—p. 89

DRUG STORE NEWS

Vol. 9/No. 14 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. July 6, 1987

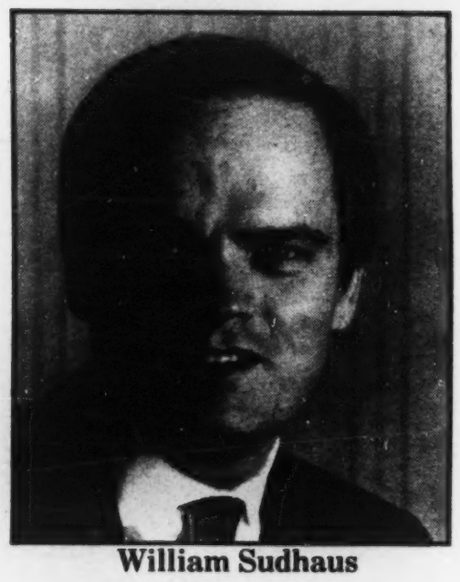
Brooks' plans are unclear after Sudhaus' departure

By Al Heller

PAWTUCKET, R.I.— The departure of William Sudhaus as president and ceo of Brooks Drug is a puzzling move for the chain of 375 bantam drug and health and beauty aids stores.

Theo Folz will continue as chairman and become ceo and acting president immediately. A company source said Brooks has no current plans to seek a new president.

Folz will also retain his president and ceo spot at Consolidated Cigar, a sister company. Sudhaus, a former oil company president and investment banker, will take on unspecified energy-related activities within parent MacAndrews & Forbes.



William Sudhaus

Future of programs

While the moves raise many questions, Brooks officials refused to elaborate on plans. Folz was out of the country and unavailable for comment at presstime.

Folz's dual role at two companies and the replacement of Sudhaus, a nonretailer, by another nonretailer, cause market sources to question the drug chain's commitment to continue multi-pronged programs begun under Sudhaus, which were meant to raise the chain's productivity and public image.

Those steps included more competitive pricing, consumer polling and a new "look to Brooks" ad campaign to position the chain as a convenient health care retailer. Indeed, Sudhaus had told *Drug Store News* that pharmacy accounted for 30% of chain-wide sales and 36% of volume in the stores housing prescription counters. More recent estimates indicate that the pharmacy share has ticked up a few points. About 85% of the chain's stores have pharmacies.

"We're not a discounter, but we won't be a high-priced player anymore," Sudhaus vowed at the start of his helm.

Less general merchandise

Remerchandised stores would have less general merchandise such as housewares and toys, and possibly experiment with optical departments and video rental cen-

See **Brooks,** *page 93*

Cosmetics is among core drug store categories to get extra footage, as Pay 'n Save moves to reformat all stores by mid-August.

Pay 'n Save to open 60,000-sq.-ft. stores

SEATTLE — Pay 'n Save will open about 20 60,000-square-foot stores in Alaska and Hawaii, starting near Labor Day, which will include apparel departments of 6,000 square feet. The chain has also brought in Ruth Bell, a former apparel vp at Caldor, to head up the soft goods efforts.

These are among steps Pay 'n Save will take as it moves to saturate existing markets either by acquiring or opening new stores, Gerald Nathanson, vice chairman, president and ceo, told *Drug Store News* after the company's recent annual meeting.

The chain is also beginning to roll out its reformatted stores, in an effort to return to its core drug store roots.

Expansion plans

Expansion plans include opening stores in "as many neighborhoods as possible," he added. Nathanson expressed interest, for instance, in Capitol Hill, Queen Anne and West Seattle—all Seattle-area locations. Nathanson said the chain is also eying greater concentrations in Juno, Alaska; Hawaii; and San Francisco, where it recently picked up two more former grocery sites, making 11 locations in that city.

Nathanson explained the company is helping its already strong cash position by entering into many sale-leaseback

See **Pay 'n Save,** *page 93*

Longs bids Phoenix adios as part of deals with Osco

By Dave Vaczek

WALNUT CREEK, Calif. — Longs Drug is leaving the Phoenix market with its sale of 10 stores there to Osco Drugs. The deal gives the American Stores subsidiary a leading share of the fast-growing retirement mecca.

That sale is part of a larger transaction, in which Osco is also buying five Longs stores in Tucson, Ariz., and selling 11 northern California stores and one in Colorado to Longs. This enables both chains to concentrate on markets in which they are already strong.

The 670-store Osco chain will raise its share of the $500 million (drug store sales) Phoenix market to an estimated 30%. Walgreens and Revco, the other leading chains there, each have about 15%-20% shares, sources said.

The sale ends a four-year bid by Longs to establish a permanent home in one of the

See **Longs,** *page 93*

Longs slows its Arizona growth
(Stores with pharmacies in Arizona)

Chain	Stores
Walgreens	67
Thrifty	32
K mart	20
Drug Emporium	7

Source: Arizona State Board of Pharmacy

Chain returning to core drug mix

By Pamela Krein

SEATTLE — The customer has won.

After a disastrous attempt to change its merchandise mix to low-quality imports, Pay 'n Save is returning to its core drug store roots. By mid-August, the chain said, all 100 stores will be reformatted with the typical super drug store selection.

It was just last year that the company, under the direction of then chairman Bill Zimmer-

See **Core mix,** *page 93*

LATE NEWS

- CAROL STREAM, Ill. — Fast-growing FoxMeyer opened a new distribution center in this suburban town west of Chicago June 28. The 340,000 square feet automated facility will be the nation's largest drug warehouse.
- NEW BEDFORD, Mass. — Maxidrug, the deep discounter owned by Canadian parent The Jean Coutu Group (PJC), opened its second store in this state here June 25. At 17,000 square feet of selling space, it is about 40% larger than the first store, said vp George Neville.
- PORTLAND, Ore. — Fred Meyer executives told shareholders at the company's annual meeting that the chain will install pharmacy computers this year and expand scanning to include nonfoods. Cyril Green, president and coo, also said Fred Meyer will open four new stores this year and four or five stores in 1988.

Revco searches for buyers of Carls Drug

By Jim Frederick

TWINSBURG, Ohio — In line with its accelerating divestiture program, Revco D.S. has put its 45-store Carls Drug Co. division on the selling block and is reportedly making progress on an agreement to sell the Rome, N.Y.-based drug chain.

To help reduce debt incurred in last year's $1.16 billion leveraged buyout of the company, Revco is also moving to sell some 50 stores in the upper Midwest and has already contracted to sell several of its ancillary businesses.

Some apparent results

Revco has retained the New York-based investment banking firm of Salomon Brothers, which acted as underwriter in its LBO, to seek a buyer for Carls. Salomon has reportedly approached executives of several drug chains in search of possible buyers, with some apparent results.

"We have at least two possibilities as buyers for Carls," Revco's chief financial officer, Vito Cardace, told *Drug Store News*. "We're looking to divest the chain as a whole company, rather than piecemeal."

A spokesman at Salomon confirmed that "we are marketing Carls," but refused to provide details.

Ahead of schedule

Cardace also reported that Revco's complete divestiture program, set in motion early this

See **Revco,** *page 93*

NEWS IN BRIEF

NACDS honors 11 high school seniors

ALEXANDRIA, Va.— NACDS honored 11 high school seniors for their outstanding performances in the working world at the recent Careers Magazine Leadership Awards ceremony April 7 in Washington, D.C. Hosted by the U.S. Chamber of Commerce *Nation's Business Magazine*, the program included guest speakers Dan Danners, special assistant to President Reagan, and U.S. Chamber president Richard Lesher.

The students were selected from more than 500 entrants to be recognized for their work as employees or entrepreneurs, and each received a $1,000 scholarship.

Co-sponsoring the event with NACDS were Artcarved Class Ring Corp., Burger King and the Chase Manhattan Bank.

Supermarkets General taps new officers

WOODBRIDGE, N.J. — Supermarkets General has elected new top officers after Merrill Lynch & Co. gained 85% of company common stock through its $1.8 billion tender offer, which thwarted the Dart Group's buyout attempt.

The brokerage firm also said it has named eight designees of Merrill Lynch as directors, which will give it a majority of board seats. It expects to complete the buyout with a merger later this year.

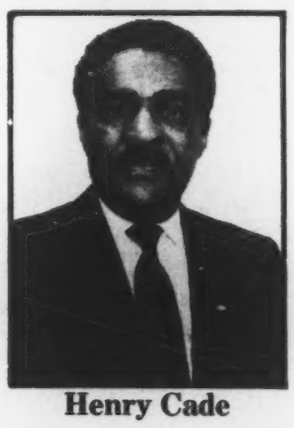
The reorganization of top officer posts follows the resignation last month of chairman Leonard Lieberman, who elected not to participate in the LBO.

Kenneth Peskin, most recently president and chief executive of the Pathmark division, was elected chairman and chief executive.

James Dougherty, previously executive vp, secretary and general counsel, was named president. Also, Jack Futterman, most recently president and chief executive of the drug store merchandising division, was elected vice chairman, filling a vacant post.

Walgreens' Cade named NABP president

DEERFIELD, Ill. — Henry Cade, manager-public affairs and professional relations for Walgreen Co., has been named president of the National Association of Boards of Pharmacy.



Henry Cade

A 1948 graduate of Michigan's Wayne State University College of Pharmacy and of the University of Chicago's MBA program, Cade becomes the first black to serve in a leadership role in the NABP's 83-year history.

Cade has held various pharmacy-related management positions with Walgreen since joining the chain in 1959.

He has been a member of the National and American Pharmaceutical Associations, is a past chairman of the Illinois Board of Pharmacy and has been president-elect, vice president and an executive committee member of NABP.

Curtin joins Fay's legal department

LIVERPOOL, N.Y. — Fay's Drug has named Paul Curtin Jr. as assistant general counsel and assistant secretary in its legal department. Curtin, who will report to Warren Wolfson, vp-general counsel, was previously general counsel to Community Technology Inc.

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Vol. 9, No. 14 July 6, 1987

Drug Emporium to launch in Knoxville and Nashville

NASHVILLE — Drug Emporium is preparing to penetrate two new markets in Tennessee.

A franchised Drug Emporium will open in Knoxville toward the end of this month, and a second franchised store was expected to open in Nashville the first week in July.

"We started fixturing (Knoxville) May 25, so I expect it to be ready," noted Drug Emporium executive vp Gary Wilber.

Wilber said the chain has slowed its expansion pace somewhat from previous years, but will still open 25 to 30 new stores in 1987. Among them will be a Philadelphia-area store, slated for the end of July.

The Knoxville store will be the first deep discount drug store in its market, while the Nashville unit will be the second. An Ike's deep discount store opened in Nashville in mid-May.

John Brewer, the franchisee for Knoxville, and Harvey Hayes, the franchisee for Nashville, both told *Drug Store News* they will invest heavily in TV, radio and print ads to build awareness for Drug Emporium in these virgin markets.

Prices, selection, service

Both said the ads will stress Drug Emporium's "prices, selection and service," and that they will be used to educate consumers to the advantages of shopping for health and beauty aids in a deep discount drug store rather than in a traditional drug store, a supermarket or a mass merchandise store.

They agreed that Nashville and Knoxville each have strong economies, a preponderance of mid- to high-income families and a dearth of deep discount competitors. Neither considers local food stores or the local Walgreens and SupeRx competitors to be sharply priced.

Brewer is estimating that his first Knoxville unit will be able to generate at least $3.5 million a year in first-year sales.

Hayes was more reticent about first-year projections for his Nashville store, but $3 million is about average for a Drug Emporium's first-year sales. A mature store after four or five years can do as much as $10 million a year in sales.

140 stores by year end

Drug Emporium, as a company, currently has 123 stores opened, and Wilber said the company should have a total of about 140 stores by year end.

Wilber added that Drug Emporium, which is the country's largest chain of deep discount drug stores, should open a total of about 30 stores in 1987, more than two-thirds of them franchised units.

In Nashville, Hayes hopes to open at least two stores this year and has a second lease signed for a shopping mall that is set for construction.

Hayes said he believes he can open a total of five stores in the Nashville marketplace over the next three years.

In Knoxville, Brewer estimates he can open about four stores by May 1988.

"We think we can open at least two stores in Knoxville itself," he said, "and at least two more in the neighboring tri-city area, where we also have the franchise rights."

H&BA dominance

Sources in both markets said they believe the dominant share of health and beauty aid sales may belong to food stores in this marketplace, particularly to Kroger, which has about a 70% share of food store sales in Nashville.

Mass merchandise chains such as K mart and Wal-Mart are also doing a strong business in H&BA sales. But Hayes and Brewer felt they could beat them on price and be competitive on brand name selection and service.

They also feel they have an edge over the conventional drug stores because they rely more on convenience to generate H&BA sales. Some sources, in fact, estimated that the traditional drug chains in Knoxville and Nashville are taking mark-ups of between 30% and 50% on their everyday H&BA items. That leaves plenty of room for deep discounters to undercut them.

Food and mass merchandise chains are said to be taking mark-ups more in the vicinity of 20%-40%.

Drug Emporium's mark-ups are traditionally much lower, 25% and less, sources estimated.

Chain growth parallels N.C. rising economy

Crown lays plans to add 5 by '88

ADVANCE, N.C. — Crown Drug is making hay while the Sunbelt shines.

With its home state basking in a growth economy, the 19-store chain based in a suburb of Winston-Salem has launched a major expansion drive.

"The opportunity is there," said Ray Gentry, Crown's president.

"Shopping centers are going up, it seems, on every street corner, and the money rates are down. The developers are calling every day," he observed.

Expansion plans

Crown will add five stores in the next year (making 24 stores by June 1988), after completing in January a warehouse addition that provides badly needed storage capacity.

The chain just signed three leases for new stores and is negotiating two more. It opened its 19th unit Feb. 25 in a 120,000-square-foot center with a Rose's discount department store in Kernersville, seven miles east of Winston-Salem, Gentry said.

Growth will be confined to within a 70-mile radius of Winston-Salem, to stay in one television market and have efficient warehouse deliveries. "There are plenty of untapped markets within that 70-mile radius," Gentry noted.

The new stores will have a new look. Crown, with stores averaging $1.5 million annual sales, has set up a prototype in which a central aisle angles diagonally from the front door to the opposite rear corner. It gives endcaps maximum exposure to entering shoppers. Gondolas are heightened to 66 inches from 54 inches.

"We had been building the drug stores of the '70s. Now we've decided to start building the drug stores of the '90s," Gentry said.

The new warehouse wing relieves cramped storage conditions, in which there was a lack of adequate room even to stage and break down deliveries. With total space of 53,000 square feet, the warehouse can now handle planned short-term store growth and can better handle truckload buys and bulk merchandise, Gentry said.

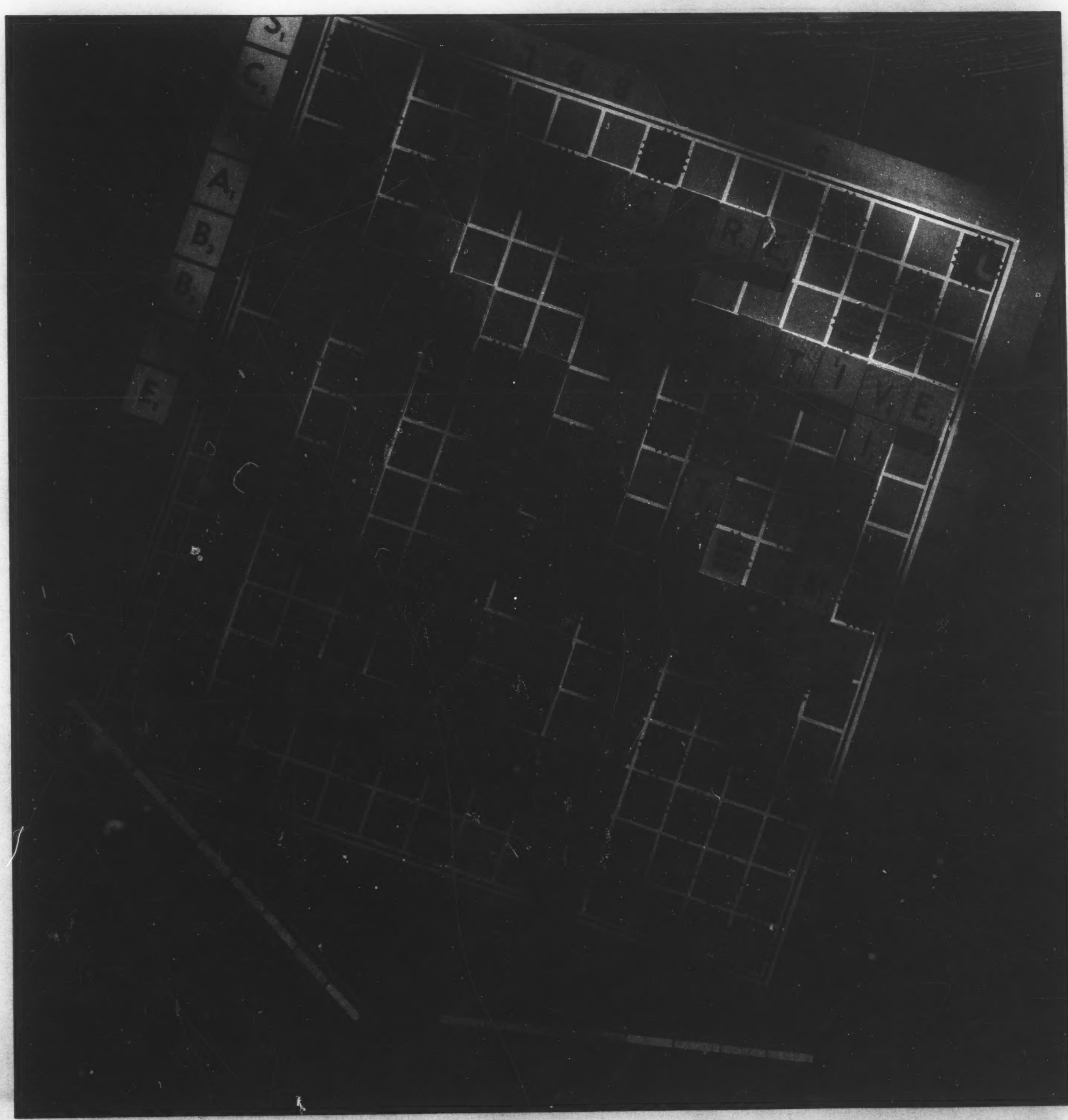
The 325-employee chain is using an employee stock purchase plan, combined with earnings and loans, to fund growth costs. Employees, in what Gentry said has been a well-received program, can buy Crown stock with a value of up to 10% of their annual income, not exceeding $10,000.

A vestige remains of small in-line sections of Crown's home health care business, which the chain phased out in 1985 because of the high demand it put on space, personnel and dollars. Crown is committed instead to optical departments. Three shops, in Winston, Lexington and Mocksville, which have licensed opticians, lens grinding and full lines of discounted eye wear, average $300,000 annual volume.

Clarification

PITTSBURGH — Thomas Sigerstad, recently named to the post of vp-marketing at Thrift Drug, will report to Larry Rose, executive vp-marketing, merchandising and distribution. Rose is part of a new three-man Office of the President.

TRENDS



Triple A products spell drug store P-R-O-F-I-T-S

During the past year of single-digit drug store sales growth, retailers have relied more heavily on the performance of Triple A products than ever before.

Indeed, they've had to, as core health categories and selected general merchandise products became the focus of retail efforts. That is the way drug stores are remaining distinctive in the marketplace as health care providers and stores of convenience.

In this report, the 18th Annual *Drug Store News* Triple A Product Study, performance-leading products are cited for their strong sales, profits and unit movement contributions to drug stores in 1986.

Many are familiar names and established products, but a number of new offerings from key manufacturers in a broad range of categories also penetrated the upper ranks.

Stationery, for instance, is a prime example of how new colors, packaging and products armed retailers with fresh merchandising angles to build department productivity.

Retailers expressed to *Drug Store News* their growing perception that stationery has developed into a core category and a 12-months-a-year business.

The department is earning more footage, as retailers tap store performance, generate extra visits from a broader shopping base and improve quality image.

Drug store merchants seek similar positioning in their photo departments, where consumer attention to the 35mm camera format is given its due. By catering to that shopper preference, drug store operators are better able to attract picturetakers of all grades.

Retailers recognize that consumers are growing more serious about photo results, and are willing to spend for easy-to-use, quality 35mm cameras, branded and private label films and consistent photofinishing.

In batteries, a related category, drug stores helped themselves to a greater share

Continued on page 16

TRENDS

What's new?:

Weigh criteria to predict product performance

By Richard Lawrence

In 1986, drug stores were asked to make room for 1,112 health and beauty aids introductions, according to Marketing Intelligence Service, a new products monitoring firm in Naples, N.Y. That's not counting package size, color and flavor variants, or many of the 3,950 new foods, beverages and household products that also competed for drug stores' limited shelf space.

How many of these were truly *new*—new products that your customers will buy and keep buying? It's too soon for a final verdict, but nothing suggests that the failure rate—traditionally a stunning 80%—will be any less for 1986.

The Innovation Index, Product Initiatives' quarterly report of formula, positioning, packaging, technological and marketing innovations in drug store and grocery product launches, show only one in seven new health and beauty aids had anything really new in 1986. That's down from the one in six that had anything new in 1985.

In addition, although being new is important, it doesn't guarantee success. Even the best introductions can fail without proper advertising, promotion and distribution—and some of the 1986 crop are certain to wither for lack of commitment.

Potential risks

We all know the cost of failure is enormous. The manufacture of a new, nationally distributed shampoo might have $50 million at risk in development and marketing support. The retailer jeopardizes his store economics if new products don't outperform those they replace.

Thomas W. Wilson Jr., a director of McKinsey and Co., used figures from Super Valu, as shown in the accompanying chart, to show the potential danger, when he spoke to the

Richard Lawrence

World New Products Conference. In this case, almost half the items in the warehouse had been first listed in the past five years, but they only accounted for 32% of tonnage and 29% of dollar sales.

Everyone loses in the ultimate equation when the consumer, inured to an indiscriminate flood of new products, buys mainly on price.

What can a retailer do to protect his interests? How can manufacturers be encouraged to develop products that are really new?

When considering whether to list a new product, you certainly should look at the total system: adjusted gross margin, likely turns, pack configuration, number of sku's, case size, order requirements, the manufacturer's planned advertising and consumer promotion and so forth. But there is a series of basic questions you can ask about the new products before you get to those other considerations.

Predicting performance

Positive answers won't guarantee a winner, but they will improve your odds for success. However, a product that doesn't measure up on these questions won't offer your customers a significant point of difference. It won't be a truly new product, and consequently, no matter how good the other aspects, it will very likely fail.

If you insist on new products having a significant point of difference before you list them, you'll be using a formal test to predict a buying decision that consumers would make informally and intuitively. You'll be your customers' first line of defense, in many cases saving yourself the expense of the negative verdict consumers would otherwise be rendering on new products already on your shelves.

The significant point of difference is what makes the new brand distinct from others—that is, why the consumer will desire it in preference to the brands that are currently available. Here are five questions that will help you decide if the new brand has a significant difference.

1. Does the brand have a difference that consumers can recognize? Too many new products are based on technical differences measurable in the laboratory, but not measurable by the consumer in normal use. Be skeptical of propositions that claim, for example, that they "dissolve X% faster" or "absorb Y% more acid." Often, the support for such claims is in vitro testing, which may not be indicative of a detectable performance difference for individuals waiting for relief from a headache.

2. Does the brand have a difference that your customers need or want? What do customers need or want? They want benefits such as *quality*, as implied by brand names they have learned to trust. They want *improved performance*, as with the first enteric-coated analgesics, which lessened the risk of stomach upset for those sensitive to, or taking regular dosages of, ASA. They want *value*, as with store brand products that promise national brand performance at a lower price.

They want *convenience:* For example, the first extended-release cold and allergy medications, provided a simple morning and evening dosage regimen. They want *solutions to problems*, as with the first fluoride dentifrices, which significantly reduced dental caries. And they want *new services*, such as the one-stop muffler shops like Midas.

If the new product isn't needed or wanted, it won't be significant. However, your customers often don't know what they want, especially when it comes to new products. This is why the next question is so important.

3. Does the brand's point of difference go hand in hand with a chord of familiarity? Consumers are more receptive to a new product when they can see something that links it to their past experience. This chord of familiarity should highlight the point of difference, or newness, by contrasting with it. For example, the chord of familiarity is italicized in these once-new products: liquid *soap*, disposable *diapers*, light *beer*, *styling* mousse, instant *camera*, rechargeable *batteries*.

New item performance

	Items	Tonnage sales	$ sales
Old items	54.2%	68.2%	71.1%
New items*	45.8%	31.8%	28.9%

*First listed in past five years

4. Is the brand's point of difference credible and is it confirmed on delivery? Consumers must believe the new brand will deliver the significant point of difference it promises; if you think they won't, then consumers are unlikely to make that first purchase. And if you think the brand won't deliver, then consumers probably won't buy it again.

5. Is the brand's point of difference communicated in every aspect of its presentation? People buy brands, not products.

The name, pack, price, the product itself, the appeals and the advertising should focus the selling propositions of the brand and communicate its point of difference. Branding, or the presentation of an idea, can even create a new product's point of difference. When it was introduced, Clinique was a totally new presentation for cosmetics: The brand promised skin care rather than skin beautification. An appropriate, scientific name combined with beautiful packaging influenced the brand's incredible success.

L'Eggs pantyhose is probably no better than many other brands. Yet the unique presentation in terms of package, name and distribution through racks have created a huge success.

I think you'll find the simple discipline of these questions will improve your batting average on new listings. But there is a caution: Be sensitive to the "how" as well as the "what" when considering whether a new brand has a significant point of difference. Products can appeal in four ways: to rational thinking, to sensation, to the emotions and to intuition. Most products, in fact, employ a combination of appeals, with one appeal dominating or leading.

Nonrational appeal

A significant point of difference doesn't have to be based on a rational appeal, and it is self-defeating to try to create logical, product-based points of difference in many categories where actual performance differences are slim, or undetectable.

Many marketers fall into this trap, especially in health products, because modern medical therapy is essentially rational, and rational strategies generally are easier to conceive and understand. Consequently, stronger opportunities for differentiation are ignored.

A hot liquid cold remedy has a sensate appeal that reinforces the perception of efficacy. Contact lenses that change the color of the eyes as well as correcting vision carry an additional emotional benefit. In both cases, the nonrational appeals help create a potentially significant point of difference.

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Triple A products spell drug store P-R-O-F-I-T-S

Continued from page 15

of the market by cross merchandising heavily with toys, photo, home lighting and consumer electronics, in addition to permanent displays.

Manufacturers played a role in growth here too, with a flurry of virtual non-stop promotions to build impulse sales. It is notable that consumers don't stockpile batteries for future use, but tend to use what they buy quickly. So more impulse purchases don't rob from future sales; they truly build sales.

While the same can't be said exactly for over-the-counter medications, many drug stores constantly aim for the image of being the first store in the market to carry new items, and that they're always in stock.

That's particularly important in a category such as antacids, where a small percentage of heavy users dominate the market. They want the brand to which they're loyal, so the local drug store had better stock it.

Antacids continue to be a planned purchase, so wall placement is thought to be unnecessary by some space management sources because high visibility won't generate a lot of impulse sales. They are, however, generally in-line near pharmacy, where recommendations can steer customers.

That is a common approach in merchandising OTCs, especially categories in which new products surface often. The vitamins and supplements category, for instance, has seen many cycles of new introductions. Fish oil and calcium products currently share the limelight for their supposed abilities to retard or reverse various ailments. Customers often rely on pharmacists to talk straight with them about advertised benefits.

That reliance helps to position pharmacists as willing partners in the well-being of their customers, and increases their exposure from behind-the-counter. It is precisely the posture drug store operators seek, since it fortifies the personal image and lets customers know they can get quick, knowledgeable advice on the broad range of OTCs and pharmaceutical products.

It is particularly important because additional Triple A categories—the workhorse performers in drug stores—include laxatives, lens care, cough/cold, analgesics and diet aids.

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Triple A Product Study

TRENDS

100 Hottest General Merchandise Items

Number of units		Dollar sales		Dollar margin	
RANK	PRODUCT NAME	RANK	PRODUCT NAME	RANK	PRODUCT NAME
1	Dove Bath Bar	1	Polaroid 600 High Speed	1	Polaroid 600 High Speed
2	Ivory Soap Per Size 4 pack	2	Polaroid 600 Speed Twinpak	2	Polaroid 600 Speed Twinpak
3	Comet Cleanser 14 oz.	3	Duracell Alkaline AA 4 pk	3	Duracell Alkaline AA 4 pk
4	Duracell Alkaiine AA 2 pk	4	Polaroid SX-70 Time Zero	4	Eveready Energizer AA 4
5	Eveready Energizer AA 2 pk	5	Eveready Energizer AA 4 pk	5	Duracell Alkaline D cell 2 pk
6	Polaroid 600 High Speed	6	Polaroid SX-70 Twinpak	6	Polaroid SX-70 Time Zero
7	Kodacolor CA 135-24 VR-G 100	7	Kodacolor HR Disc Doublepak	7	Duracell Alkaline C cell 2 pk
8	Duracell Alkaline AA 4 pk	8	Duracell Alkaline D cell 2 pk	8	Kodacolor HR Disc Doublepak
9	Clorox Liq. Bleach 1 gal	9	Kodacolor CA 135-24 VR-G 100	9	Duracell Alkaline AA 2 pk
10	Kodak CB 110-24 VRG 200	10	Kodacolor CB 135-24 Vr-G 200	10	Kodacolor CA 135-24 VR-G 100
11	Duracell Alkaline D cell 2 pk	11	Kodak CB 110-24 VRG 200	11	Kodacolor CB 135-24 Vr-G 200
12	Kodacolor HR Disc Singlepak	12	Duracell Alkaline C cell 2 pk	12	Kodak CB 110-24 VRG 200
13	Kodacolor CB 135-24 Vr-G 200	13	Kodak CM 135-24 VR 400	13	Duracell Alkaline 9 volt Blister pk
14	Dove Personal Size 3.5 oz.	14	Duracell Alkaline AA 2 pk	14	Polaroid SX-70 Twinpak
15	Reynolds Standard Alum Wrap 25ft	15	Kodacolor HR Disc Singlepak	15	Eveready Energizer D cell 2 pk
16	Duracell Alkaline C cell 2 pk	16	Kodacolor CA 135-36 VR-G 100	16	Eveready Energizer C cell 2 pk
17	Zest Deo Beauty Soap Bath	17	Duracell Alkaline 9 volt Blister pk	17	Kodak CM 135-24 VR 400
18	Kodak CM 135-24 VR 400	18	Kodak CM 135-36 VR 400	18	Kodacolor HR Disc Singlepak
19	Kodacolor HR Disc Doublepak	19	Eveready Energizer D cell 2 pk	19	Eveready Super Hvy duty AA 4 pk
20	Eveready Energizer AA 4 pk	20	Everready Energizer C cell 2 pk	20	Kodacolor CA 135-36 VR-G 100
21	Eveready Super Hvy duty AA 4 pk	21	Kodacolor CB 135-36 VR-G 200	21	Kodak CM 135-36 VR 400
22	Kodacolor CA 135-36 VR-G 100	22	White Cloud Toilet 4pk white	22	Eveready Energizer AA 2 pk
23	Eveready Super Hvy Duty C Cells 2s	23	Dove Bath Bar	23	Duracell Alkaline AAA 2 pk
24	Eveready Super Hvy Duty D Cell 2s	24	Eveready Super Hvy duty AA 4 pk	24	Eveready Energizer 9 Volt Single
25	Eveready Energizer D cell 2 pk	25	Eveready Energizer AA 2 pk	25	Kodacolor CB 135-36 VR-G 200
26	Eveready Energizer C cell 2 pk	26	Ivory Soap Per Size 4 pack	26	White Cloud Toilet 4pk white
27	Caress Bath Soap & Oil 4.75 oz.	27	Tide Liq 64 oz.	27	Dove Bath Bar
28	Safeguard Deo Soap Bath	28	Kodacolor VR 1000 CF135-24	28	Kodacolor VR 1000 CF135-24
29	Bounty Designer Big Roll	29	Kodak 35MM K40	29	Eveready Super Hvy Duty D Cell 2 pack
30	Polaroid 600 Speed Twinpak	30	Duracell Alkaline AAA 2 pk	30	Ivory Soap Per Size 4 pack
31	Duracell Alkaline AAA 2 pk	31	Eveready Energizer 9 Volt Single	31	Crayola Crayons 24 ct.
32	Bounty Asst Big Roll	32	Charmin White 4 pk	32	Charmin White 4 pk
33	Kodak CM 135-36 VR 400	33	Tide Deter Low Phos 42 oz.	33	Sylvania Magicube
34	Coast Bath Soap 5 oz.	34	Polaroid LMS 600 Free Film	34	Eveready Energizer AAA 2 pk
35	Duracell Alkaline 9 volt Blister pk	35	Kodak Disc 3100	35	Sylvania Super10 FlipFlash 2 pack
36	Kleenex Asst 175s	36	Charmin Yellow/Blue 4 pk	36	Sylvania Flash Bar
37	Polaroid SX-70 Time Zero	37	Eveready Super Hvy Duty D Cell 2s	37	Tide Liq 64 oz.
38	Charmin White 4 pk	38	Posh Puffs Facial Tissues 100s	38	Eveready Super Hvy Duty C Cells 2s
39	Eveready Energizer AAA 2 pk	39	Kodak Tele Disc	39	Sylvania Super 10 FlipFlash
40	Tide Deter Low Phos 42 oz.	40	Cheer Deter Low Phos 42 oz.	40	Tide Deter Low Phos 42 oz.
41	Kodacolor CB 135-36 VR-G 200	41	Kodak CB 110-12 VR-G 200	41	Bic Mechanical Pencil 5 PK &2 free
42	Tide Unscented 42oz Low Phos	42	Bounty Designer Big Roll	42	Kodak CB 110-12 VR-G 200
43	Kodak CB 110-12 VR-G 200	43	Kodak CB 126-24 VR-G 200	43	Kodak CB 126-24 VR-G 200
44	Eveready Flashlight Size D 4 pak	44	Puff Facial Tissue 250 Ct.	44	Kodak Disc 3100
45	Kleenex Family 250s	45	Kodacolor CM 110-24 400SPD	45	Charmin Yellow/Blue 4 pk
46	White Cloud Toilet 4pk white	46	Polacolor 108 Single Pk#108	46	Kodak 35MM K40
47	Crayola Crayons 24 ct.	47	Kleenex Family 250s	47	Kodacolor CM 110-24 400SPD
48	Crayola Crayons 16 ct.	48	Sylvania Magicube	48	Polacolor 108 Single Pk#108
49	Cheer Deter Low Phos 42 oz.	49	Eveready Energizer AAA 2 pk	49	Bounty Designer Big Roll
50	Kleenex White 175s	50	Tide Unscented 42oz Low Phos	50	Posh Puffs Facial Tissues 100s

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TRENDS

Triple A Product Study

100 Hottest General Merchandise Items

Number of units		Dollar sales		Dollar margin	
RANK	PRODUCT NAME	RANK	PRODUCT NAME	RANK	PRODUCT NAME
51	Charmin Yellow/Blue 4 pk	51	Sylvania Super10 FlipFlash 2 pack	51	Puff Facial Tissue 250 Ct.
52	Eveready Energizer 9 Volt Single	52	Sylvania Flash Bar	52	Cheer Deter Low Phos 42 oz.
53	Elmers School Glue 4 oz.	53	Clorox Liq. Bleach 1 gal	53	Eveready Flashlight Size D 4 pak
54	Reynolds Alum Wrap Econ 75 ft	54	Crayola Crayons 24 ct.	54	Eveready Super Hvy Duty 9 Vt 2 pk
55	Dawn Liq. Derter 32 oz.	55	Eveready Super Hvy Duty C Cells 2s	55	Kodak Tele Disc
56	Charmin Pink/Green 4 pk	56	White Cloud Pink/Green 4 pk	56	Puffs White Facial Tissue 175s
57	Puffs Asst Facial Tissues 175s	57	Sylvania Super 10 FlipFlash	57	White Cloud Pink/Green 4 pk
58	Scotch Magic Cell Tape 3/4 X 300	58	Puffs White Facial Tissue 175s	58	Tide Unscented 42oz Low Phos
59	White Cloud Pink/Green 4 pk	59	Kleenex White 175s	59	Puffs Asst Facial Tissues 175s
60	Scotch Magic Cell Tape 1/2 X 450	60	Puffs Asst Facial Tissues 175s	60	Comet Cleanser 14 oz.
61	Puffs White Facial Tissue 175s	61	Bic Mechanical Pencil 5 PK &2 free	61	Clorox Liq. Bleach 1 gal
62	Tide Liq 64 oz.	62	Dove Personal Size 3.5 oz.	62	Kleenex Family 250s
63	Bic 10 Pack Pens Blue	63	Reynolds Alum Wrap Econ 75 ft	63	Zest Deo Beauty Soap Bath
64	Crayola Crayons Jumbo 8 ct.	64	Comet Cleanser 14 oz.	64	Dove Personal Size 3.5 oz.
65	Kleenex Boutique 36/100s	65	Eveready Flashlight Size D 4 pak	65	Reynolds Standard Alum Wrap 25ft
66	Elmers Glue-all 4 oz.	66	Bold 3 liquid 64 oz.	66	Kleenex White 175s
67	Kleenex Softique 250s	67	Fab Liquid 64 oz.	67	Polaroid Spectra Single pak
68	Kodacolor CM 110-24 400SPD	68	Sylvania Flash600/Polaroid Amigo	68	Bounce Fab Softener 40 ct.
69	Puff Facial Tissue 250 Ct.	69	Klaenex Asst 175s	69	Reynolds Alum Wrap Econ 75 ft
70	Kodacolor VR 1000 CF135-24	70	Polaroid Spectra Single pak	70	Crayola Markers Asst Colors 8 ct
71	Eveready Super Hvy Duty 9 Vt 2 pk	71	Zest Deo Beauty Soap Bath	71	Safeguard Deo Soap Bath
72	Polaroid SX-70 Twinpak	72	Eveready Super Hvy Duty 9 Vt 2 pk	72	Bold 3 liquid 64 oz.
73	Posh Puffs Facial Tissues 100s	73	Bounce Fab Softener 40 ct.	73	Elmers Glue-all 4 oz.
74	Bic Mechanical Pencil 5 PK &2 free	74	Caress Bath Soap & Oil 4.75 oz.	74	Crayola Crayons 16 ct.
75	Crayola Markers Asst Colors 8 ct	75	Bounty Asst Big Roll	75	Fab Liquid 64 oz.
76	Bounce Fab Softener 40 ct.	76	Cascade Dishwasher Deter 50 oz.	76	Kleenex Asst 175s
77	Clorox II All Fabr Bleach 40 oz.	77	Safeguard Deo Soap Bath	77	Crayola Crayons Jumbo 8 ct.
78	Kodak CB 126-24 VR-G 200	78	Dawn Liq. Derter 32 oz.	78	Coast Bath Soap 5 oz.
79	Sylvania Magicube	79	Kodak CB 126-12 VR-G 200	79	Caress Bath Soap & Oil 4.75 oz.
80	Scotch Cello Magic 1/2 X 800	80	Coast Bath Soap 5 oz.	80	Kodak CB 126-12 VR-G 200
81	Pledge Polish Lemon Scent Spr 7 oz	81	Clorox II All Fabr Bleach 40 oz.	81	Clorox II All Fabr Bleach 40 oz.
82	Sylvania Super 10 FlipFlash	82	Cascade Deter Lemon Scent 50 oz.	82	Papermate 10 pack pens
83	Erasermate II 6 pack Blue	83	Charmin Pink/Green 4 pk	83	Elmers School Glue 4 oz.
84	Bold 3 liquid 64 oz.	84	Kleenex Softique 250s	84	Bounty Asst Big Roll
85	Cascade Dishwasher Deter 50 oz.	85	Fab Laundry Pow Deter 42 oz.	85	Cascade Dishwasher deter 50 oz.
86	Kodak CB 126-12 VR-G 200	86	Crayola Markers Asst Colors 8 ct	86	Charmin Pink/Green 4 pk
87	Cascade Deter Lemon Scent 50 oz.	87	Pledge Polish Lemon Scent Spr 7 oz	87	Cascade Deter Lemon Scent 50 oz.
88	Fab Laundry Pow Deter 42 oz.	88	Crayola Crayons 16 ct.	88	Bic 10 pack pens blue
89	Fab Liquid 64 oz.	89	Crayola Crayons Jumbo 8 ct.	89	Pledge polish lemon scent spr 7 oz.
90	Sylvania Flash Bar	90	Scotch Tape Trans. Acet. 1/2 X 500	90	Kodak 35MM K10
91	Lysol Aerosol Spray 6 oz	91	Papermate 10 Pack pens	91	Kleenex softique 250s
92	Mr Clean For No wax floors 28oz	92	Woolite Self Cleaning Rug .22 oz.	92	Crayola Crayons 48 ct.
93	Woolite Self Cleaning Rug 22 oz.	93	Scotch Cello Magic Disp 1/2 X 800	93	Woolite self cleaning rug 22 oz.
94	Lysol Spray 12 oz.	94	Mr Clean For No wax floors 28oz	94	Mr. Clean for no wax floors 28 oz.
95	Endust Lemon Scent 6 oz.	95	Lysol Spray 12 oz.	95	Kleenex Boutique 36/100s
96	Lysol Spray 18 oz	96	Elmers Glue-all 4 oz.	96	Lysol spray 18oz.
97	Polacolor 108 Single Pk#108	97	Scotch Magic Cell Tape 3/4 X 300	97	Lysol spray 12 oz.
98	Glade Air Freshener Early Spr 7 oz	98	Scotch Magic Cell Tape 1/2 X 450	98	Glade Air Freshener Early Spr 7 oz.
99	Papermate Malibu Pen carded	99	Papermate Power Point Slim Pen	99	Endust 10 oz.
100	Sylvania Super10 FlipFlash 2 pack	100	Reynolds Standard Alum Wrap 25ft	100	Pledge Polish Lemon Sct. 14 oz.

Triple A Product Study **TRENDS**

100 Hottest H&BA, OTC Items

Number of units		*Dollar sales*		*Dollar margin*	
RANK	***PRODUCT NAME***	***RANK***	***PRODUCT NAME***	***RANK***	***PRODUCT NAME***
1	Fleet Enema Disposable 4.5 oz.	*1*	Centrum 100 w/30 Free	*1*	Oil of Olay Beauty Fluid 4 oz.
2	Vaseline Lip Therapy .35 oz.	*2*	Oil of Olay Beauty Fluid 4 oz.	*2*	Centrum 100 w/30 Free
3	Tylenol Extra Strength Caplets 50s	*3*	Tylenol Extra Strength Caplets 50s	*3*	Tylenol Extra Strength Caplets 50s
4	Advil Tablets 24s	*4*	B&L Sensitive Eyes Solution 12 oz.	*4*	B&L Sensitive Solution 12 oz.
5	Vicks Nyquil 6 oz.	*5*	Mylanta II 12 oz.	*5*	Tylenol Extra Strength Caplets 100s
6	B&L Sensitive Eyes Solution 12 oz.	*6*	Advil Tablets 50s	*6*	Mylanta II 12 oz.
7	Tampax Super 40s	*7*	Listerine Mouthwash 32 oz.	*7*	Advil Tablets 50s
8	Similac Ready To Feed w/Iron 32 oz.	*8*	Vicks Nyquil 6 oz.	*8*	Listerine Mouthwash 32 oz.
9	Alka Seltzer Plus Cold Tabs 20s	*9*	Alka Seltzer Plus Cold Tabs 36s	*9*	Alka Seltzer Plus Cold Tabs 36s
10	Afrin Nasal Spray 1/2 oz.	*10*	Tylenol Extra Strength Caplets 100s	*10*	Vicks Nyquil 6 oz.
11	Tylenol Extra Strength Tabs 30s	*11*	Tampax Super 40s	*11*	Oil of Olay Beauty Fluid 6 oz.
12	Isomil Ready To Feed 32 oz.	*12*	Bayer Reg Strength Tabs 100s	*12*	Mylanta Liquid 12 oz.
13	Oil of Olay Beauty Fluid 4 oz.	*13*	Advil Tablets 100s	*13*	Bayer Reg Strength Tabs 100s
14	Mylanta Liquid 12 oz.	*14*	Oil of Olay Beauty Fluid 6 oz.	*14*	Allergan Lens Cleaner Tabs 24s
15	Sudafed Tabs 30mg 24s	*15*	Mylanta Liquid 12 oz.	*15*	Advil Tablets 100s
16	Benadryl-25 Kapseals 24s	*16*	Allergan Lens Cleaner Tabs 24s	*16*	Trojan Enz Lubricated 12s
17	Oral B 40 Toothbrush	*17*	Benadryl-25 Kapseals 24s	*17*	Tylenol Extra Strength Caplets 175s
18	Advil Tablets 50s	*18*	Anacin Tablets 100s	*18*	Drixoral Decongestant Tabs 20s
19	Tampax Original Regular 40s	*19*	Tylenol Extra Strength Tabs 60s	*19*	Alka Seltzer Plus Cold Tabs 20s
20	Mylanta II 12 oz.	*20*	Vicks Nyquil 10 oz.	*20*	Anacin Tablets 100s
21	Similac Ready To Feed 32 oz.	*21*	Alka Seltzer Plus Cold Tabs 20s	*21*	Sudafed Tabs 30mg 24s
22	Maalox Plus Suspension 12 oz.	*22*	Tampax Original Regular 40s	*22*	Afrin Nasal Spray 1/2 oz.
23	Tylenol Extra Strength Caplets 100s	*23*	Fibre Trim Tablets 100s	*23*	Tylenol Extra Strength Tabs 60s
24	Crest Tartar Control 6.4 oz.	*24*	Tylenol Extra Strength Tabs 100s	*24*	Vicks Nyquil 10 oz.
25	Listerine Mouthwash 6 oz.	*25*	Advil Tablets 24s	*25*	Benadryl-25 Kapseals 24s
26	Pepto-Bismol Liquid 4 oz.	*26*	Sudafed Tabs 30mg 24s	*26*	Fibre Trim Tablets 100s
27	Bayer Reg Strength Tabs 100s	*27*	Afrin Nasal Spray 1/2 oz.	*27*	Dimetapp Elixir 4 oz.
28	Colgate Regular 7 oz.	*28*	E.P.T. Plus Early Pregnancy Test	*28*	Tylenol Extra Strength Tabs 100s
29	Centrum 100 w/30 Free	*29*	Theragran-M Tablets 100 w/30 Free	*29*	Advil Tablets 24s
30	Listerine Mouthwash 32 oz.	*30*	Dimetapp Elixir 4 oz.	*30*	Tampax Super 40s
31	Neosporin Ointment 1/2 oz.	*31*	Tylenol Extra Strength Tabs 30s	*31*	E.P.T. Plus Early Pregnancy Test
32	Unisol 4 Saline Solution Twinpak	*32*	Tylenol Extra Strength Caplets 24s	*32*	Tylenol Children's Elixir 4oz.
33	Crest Tartar Control Gel 6.4 oz.	*33*	Stayfree Super Maxipads 30s	*33*	Tylenol Extra Strength Caplets 24s
34	Dimetapp Elixir 4 oz.	*34*	Tylenol Children's Elixir 4oz.	*34*	Tylenol Extra Strength Tabs 30s
35	Benadryl Elixir 4 oz.	*35*	Tylenol Drops 1/2 oz.	*35*	Theragran-M Tablets 100 w/30 Free
36	Colgate Regular 5 oz.	*36*	Fleet Enema Disposable 4.5 oz.	*36*	Neosporin Ointment 1/2 oz.
37	Bayer Reg Strength tabs 50s	*37*	Drixoral Decongestant Tabs 20s	*37*	Vaseline Lip Therapy .35 oz.
38	Robitussin-DM 4 oz.	*38*	Tampax Super Plus 40s	*38*	Fleet Enema Disposable 4.5.oz.
39	Tylenol Drops 1/2 oz.	*39*	Trojan Enz Lubricated 12s	*39*	Drixoral Decongestant Tabs 40s
40	Listerine Mouthwash 12 oz.	*40*	Neosporin Ointment 1/2 oz.	*40*	Dimetapp Extentabs 12s
41	Tylenol Extra Strength Caplets 24s	*41*	Os-Cal Supplement 500mg 60s	*41*	Tylenol Drops 1/2 oz.
42	Visine Eye Drops 1/2 oz.	*42*	Dexatrim Extra Strength Caps 20s	*42*	Dimetapp Extentabs 24s
43	Drixoral Decongestant Tabs 10s	*43*	Gillette Atra Blades 10s	*43*	Drixoral Decongestant Tabs 10s
44	Tylenol Extra Strength Tabs 60s	*44*	Dimetapp Extentabs 24s	*44*	Dexatrim Extra Strength Caps 20s
45	Pepto-Bismol Liquid 8 oz.	*45*	Stayfree Maxipads 30s	*45*	Tampax Original Regular 40s
46	Tampax Super Plus 40s	*46*	Robitussin-DM 4 oz.	*46*	Sudafed Tabs 30mg 48s
47	Colgate Pump Regular 4.5 oz.	*47*	Benadryl Elixir 4 oz.	*47*	Robitussin-DM 4 oz.
48	Alka Seltzer Tablets 36s	*48*	Drixoral Decongestant Tabs 40s	*48*	Depend Undergarment Regular 36s
49	B&L Sensitive Solution 8 oz.	*49*	Tampax Reg Slender 40s	*49*	Maalox Plus Suspension 12 oz.
50	Tampax Super 10s	*50*	Dimetapp Extentabs 12s	*50*	Advance Pregnancy Test

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100 Hottest H&BA, OTC Items

Number of units		Dollar sales		Dollar margin	
RANK	PRODUCT NAME	RANK	PRODUCT NAME	RANK	PRODUCT NAME
51	Crest Mint 6.4 oz.	51	Maalox Plus Suspension 12 oz.	51	Aosept Disinfecting Solution
52	Mennen Speed Stick Reg 2.5 oz.	52	Vaseline Lip Therapy .35 oz.	52	Robitussin-DM 8 oz.
53	Tylenol Children's Elixir 4oz.	53	Playtex Super Deod Tampons 28s	53	Rid Pediculicide 4 oz.
54	Crest Regular 6.4 oz.	54	Efferdent Denture Tablets 96s	54	Contac Capsules 20s
55	Actifed Tabs 24s	55	Sudafed Tabs 30mg 48s	55	Pepto-Bismol Liquid 8 oz.
56	Aqua-Fresh Toothpaste 6.4 oz.	56	Pepto-Bismol Liquid 8 oz.	56	Stayfree Super Maxipads 30s
57	Vicks Formula 44-D 4 oz.	57	B&L Saline Solution 12 oz.	57	Dimetapp Elixir 8 oz.
58	Tylenol Chewable Tabs 30s	58	Robitussin-DM 8 oz.	58	Efferdent Denture Tablets 96s
59	Enfamil Ready To Feed w/Iron 32 oz.	59	Drixoral Decongestant Tabs 10s	59	Flex Care Disinfecting Sol. 12 oz.
60	Q-Tips Cotton Swabs 300s	60	Stayfree Deod Maxipads 30s	60	First Response Pregnancy Test
61	Isomil Concentrate 13 oz.	61	Depend Undergarment Regular 36s	61	Vicks Formula 44-D 4 oz.
62	Gillette Atra Blades 5s	62	Advance Pregnancy Test	62	Benadryl Elixir 4 oz.
63	Pedialyte Ready To Use Fruit 32 oz.	63	Dimetapp Elixir 8 oz.	63	Allergan Lens Cleaner Tabs 48s
64	Vicks Nyquil 10 oz.	64	Vicks Formula 44-D 4 oz.	64	Allergan Lens Cleaner Tabs 12s
65	Maalox Suspension 12 oz.	65	Tylenol Chewable Tabs 30s	65	Tylenol Chewable Tabs 30s
66	Dimetapp Extentabs 12s	66	Aosept Disinfecting Solution	66	B&L Saline Solution 12 oz.
67	Stayfree Deod Maxipads 30s	67	First Response Pregnancy Test	67	Depend Undergarment Extra 30s
68	Preparation H Ointment 1 oz.	68	Gillette Trac II Blades 9s	68	Maalox Suspension 12 oz.
69	Gillette Atra Blades 10s	69	Rid Pediculicide 4 oz.	69	Unisol 4 Saline Solution Twinpak
70	Close-Up 6.4 oz. Twin Regular	70	Maalox Suspension 12 oz.	70	Keri Lotion 6.5 oz.
71	Aqua-Fresh Toothpaste 4.6 oz.	71	Bufferin Reg. Strength Tabs 100s	71	Visine Eye Drops 1/2 oz.
72	Contac Capsules 10s	72	Similac Ready To Feed w/Iron 32 oz.	72	Bufferin Reg. Strength Tabs 100s
73	Alka Seltzer Plus Cold Tabs 36s	73	Flex Care Disinfecting Sol. 12 oz.	73	Preparation H Suppositories 12s
74	Stayfree Super Maxipads 30s	74	Actifed Tabs 24s	74	Gillette Atra Blades 10s
75	Summers Eve V&W Twinpk Douche	75	Unisol 4 Saline Solution Twinpak	75	Playtex Super Deod Tampons 28s
76	Tampax Reg Slender 40s	76	Preparation H Suppositories 12s	76	Tampax Super Plus 40s
77	Stayfree Maxipads 30s	77	Allergan Lens Cleaner Tabs 48s	77	Stayfree Maxipads 30s
78	Trojan Enz Lubricated 12s	78	Q-Tips Cotton Swabs 300s	78	Tylenol Extra Strength Tabs 200s
79	Anacin Tablets 100s	79	Allergan Lens Cleaner Tabs 12s	79	Contac Capsules 10s
80	Advil Tablets 100s	80	Depend Undergarment Extra 30s	80	Q-Tips Cotton Swabs 300s
81	Enfamil Concentrated w/Iron 13 oz.	81	Visine Eye Drops 1/2 oz.	81	Pepto-Bismol Liquid 4 oz.
82	Playtex Super Deod Tampons 28s	82	Preparation H Ointment 1 oz.	82	Nuprin Tablets 50s
83	Tylenol Extra Strength Tabs 100s	83	Crest Tartar Control 6.4 oz.	83	Actifed Tabs 24s
84	Colgate Pump Gel 4.5 oz.	84	Nuprin Tablets 50s	84	Colace Caps 100mg 60s
85	Ban Roll-On Antipers/Deod Reg 1.5oz	85	Efferdent Denture Tablets 60s	85	Stayfree Deod Maxipads 30s
86	Scope Mouthwash 24 oz.	86	Playtex Reg Deod Tampons 28s	86	Pliagel Soft Cleaning Solution
87	Gillette Atra plus Pivot Twin Blades 5s	87	Crest Mint 6.4 oz.	87	Efferdent Denture Tablets 60s
88	Drixoral Decongestant Tabs 20s	88	Crest Tartar Control Gel 6.4 oz.	88	A-200 Pyrinate Liquid 4 oz.
89	Preparation H Suppositories 12s	89	Contac Capsules 10s	89	Crest Tartar Control 6.4 oz.
90	Neosporin Cream 15 gm	90	Keri Lotion 13 oz.	90	Today Vaginal Sponge 3s
91	Gillette Trac II Blades 10s	91	Pepto-Bismol Liquid 4 oz.	91	Preparation H Ointment 1 oz.
92	Ban Roll-On Antipers/Deod Reg 2.5oz	92	Playtex Reg Tampons 28s	92	Tampax Reg Slender 40s
93	Oil of Olay Beauty Fluid 6 oz.	93	Playtex Super Plus Deod 28s	93	Keri Lotion 13 oz.
94	Vaseline Intensive Care Lot 10 oz.	94	Dexatrim Extra Strength Caps 40s	94	Crest Mint 6.4 oz.
95	Dristan Advance Formula 24s	95	Colace Caps 100mg 60s	95	Crest Tartar Control Gel 6.4 oz.
96	Theragran-M Tablets 100 w/30 Free	96	A-200 Pyrinate Liquid 4 oz.	96	Dexatrim Extra Strength Caps 40s
97	Vaseline Intensive Care Lot 15 oz.	97	Playtex Super Tampons 28s	97	Pepto-Bismol Liquid 16 oz.
98	Listerine Mouthwash 18 oz.	98	Pliagel Soft Cleaning Solution	98	Oral B 40 Ad. Toothbrush Tabbed
99	Tylenol Regular Strength Tabs 100s	99	Primatene Mist Refill 15cc	99	Dristan Advance Formula 24s
100	Colgate Regular 9 oz.	100	Today Vaginal Sponge 3s	100	Nuprin Tablets 150s

TRENDS

Triple A Product Study

Consumer demand, promos spark battery profits

Batteries as a profit center moved from charged to supercharged with the combination of rising consumer demand and strong vendor promotions spurred by Kodak's market entry.

Chains gained double-digit sales growth by combining their own promotions with those of vendors, which took a variety of forms. While Eveready continued to emphasize multi-giveaway packs, Duracell used on-pack rebate offers. Rayovac, on the other hand, preferred rebate pads. Vendors meanwhile showered buyers with co-op and display allowances.

Industry sources estimated batteries would grow 10% a year, with $3.5 billion in sales in 1990.

Kodak gained following

Kodak gained a significant following, despite some sentiment that their product was redundant. Chains including Walgreens, Eckerd, Genovese, Longs and Brooks carried their batteries, as the vendor claimed a close to 10% share of the $2.5 billion retail sales in 1986.

Chains were more creative in how they merchandised batteries in the face of competition from discount stores and supermarkets, both of which have posted slightly stronger battery sales growth than drug stores in the last five years. While drug stores gained one point in share of units sold, from 17% in 1981 to 18% in 1986, discount stores moved 3% higher, to 35%, and food stores by 3%, to 27%.

Besides cross-merchandising batteries with such departments as toys, cameras or home lighting, stores were boosting exposure with separate in-line departments and counter displays.

Chains reported strong demand for multipacks among consumers looking to power their electronic toys and "boom box" radios inexpensively. With the need for more power, alkalines—providing six times the power of a zinc-cadmium battery at twice the price—continued their growth surge. They accounted for 62% of the market in 1986, compared with just 15% in 1975.

Wide demand

Demand for batteries will be coming from a number of directions: Toy manufacturers are relying more heavily than ever on battery-powered toys, led by the talking dolls segment, and toys that interact with video screens.

In the meantime, manufacturers estimate that up to one-third of already purchased battery-powered devices contain spent cells or none at all.

While buyers report strong sales in multipacks, some believe they have a limited potential because customers aren't accustomed to buying in advance of their need.

Chains looked for another strong year in 1988, fueled by price hikes by Eveready and Duracell, which some buyers said they plan to pass on to customers.

Fastest moving batteries
(unit sales)

1	Duracell alkaline AA, 2 pk
2	Eveready Energizer AA, 2 pk
3	Duracell alkaline AA, 4 pk
4	Duracell Alkaline D cell, 2 pk
5	Duracell Alkaline C cell, 2 pk
6	Eveready Energizer AA, 4 pk
7	Eveready Super Hvy Duty AA, 4 pk
8	Eveready Super Hvy Duty C cell, 2 pk
9	Eveready Super Hvy Duty D cell, 2 pk
10	Eveready Energizer D cell, 2 pk
11	Eveready Energizer C cell, 2 pk
12	Duracell Alkaline AAA, 2 pk
13	Duracell Alkaline 9 volt
14	Eveready Energizer AAA, 2 pk
15	Eveready Flashlight Size D, 4 pk

Highest volume batteries
(retail dollars)

1	Duracell alkaline AA, 4 pk
2	Eveready Energizer AA, 4 pk
3	Duracell Alkaline D cell, 2 pk
4	Duracell Alkaline C cell, 2 pk
5	Duracell Alkaline 9 volt
6	Eveready Energizer D cell, 2 pk
7	Eveready Energizer C cell, 2 pk
8	Eveready Super Hvy Duty AA, 4 pk
9	Eveready Energizer AA, 2 pk
10	Duracell Alkaline AAA, 2 pk
11	Eveready Energizer 9 volt
12	Eveready Super Hvy Duty D cell, 2 pk
13	Eveready Energizer AAA, 2 pk
14	Eveready Super Hvy Duty C Cell, 2 pk
15	Eveready Flashlight Size D, 4 pk

Most profitable batteries
(gross margin dollars)

1	Duracell Alkaline AA, 4 pk
2	Eveready Energizer AA, 4 pk
3	Duracell Alkaline D cell, 2 pk
4	Duracell Alkaline C cell, 2 pk
5	Duracell Alkaline AA, 2 pk
6	Duracell Alkaline 9 volt
7	Eveready Energizer D cell, 2 pk
8	Eveready Energizer C cell, 2 pk
9	Eveready Super Hvy duty AA, 4 pk
10	Eveready Energizer AA, 2 pk
11	Duracell Alkaline AAA, 2 pk
12	Eveready Energizer 9 volt
13	Eveready Super Hvy Duty D cell, 2 pk
14	Eveready Energizer AAA, 2 pk
15	Eveready Super Hvy Duty C Cell, 2 pk

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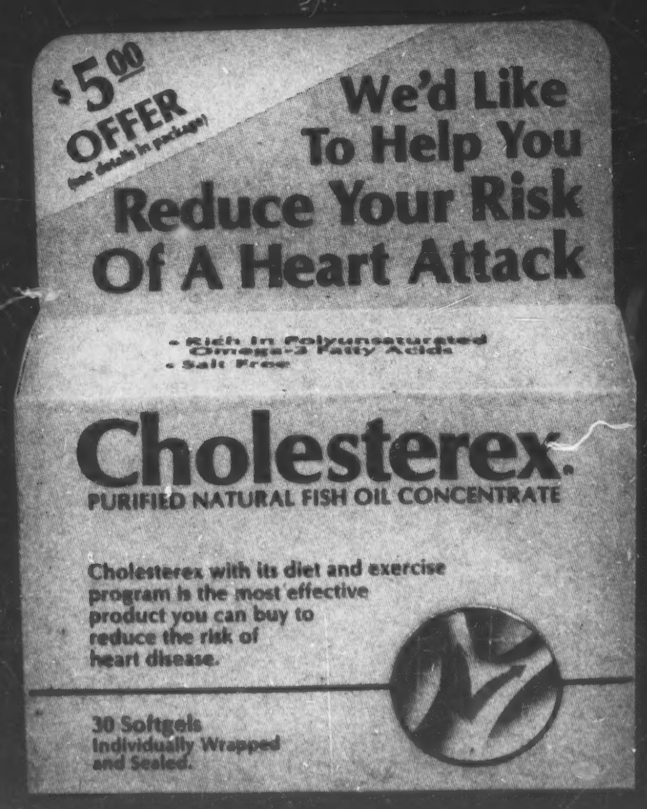
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Triple A Product Study

TRENDS

Cough/cold presentation demands special attention

Ask any retailer what moves more OTC cough and cold products better than any promotion, and the answer almost every time will be a good flu season. While that may be true, to many consumers and some retailers, the list of products that are considered to be cough and cold products may be somewhat misleading.

Products that are clearly advertised for the control of allergies or sinus congestion—two conditions not necessarily related to a cold or flu but that present the consumer with coldlike or flulike symptoms—are often clumped into the cough and cold category regardless of the product's indicated labeling on its package.

What does all this mean for the retailer? It means that retailers have to take a hard look at how they present their cough and cold merchandise to the consumer. Today's cough and cold front-end sections are seldom seen broken down by disease state, such as allergy or sinus. Instead, many retailers opt to put allergy, sinus or other line extensions of already established cold or flu products next to existing products, regardless of the conditions for which they are used.

Because of this "one product cures all" type of merchandising, many consumers will choose several cough and cold products to treat symptoms that might well have been treated by one specifically indicated product. The retailer reaps the benefits of multiple sales, and consumers eventually bring their condition under control.

Another effect from consumers buying a variety of cough and cold products to treat specific problems is an end to seasonal selling. Although spring and summer are traditionally the peak seasons for allergy purchases, more retailers are seeing a spreading out of these sales, and more and more consumers are reaching for antihistamines to treat cold symptoms.

Aside from a proliferation of product lines, the cough and cold category has benefited from products that were once sold by prescription only. While the number of Rx-to-OTC switched products has slowed considerably over the past two years, perennial favorites continue to be such Rx-to-OTC products as Actifed and Sudafed tablets, Drixoral tablets, Afrin nasal spray and Benadryl capsules.

These Rx-to-OTC switched products and other natural extensions of existing product lines may create longer lines at the cash register but a shortage of space on the shelf, as less popular brands of cough and cold products fall by the wayside. Retailers must keep abreast of better-selling products and be able to accommodate constantly shifting planograms.

	Highest volume cough/cold formulas (retail dollars)
1	Vicks Nyquil 6 oz.
2	Alka Seltzer Plus Cold Tabs 20s
3	Afrin Nasal Spray 1/2 oz.
4	Sudafed Tabs 30 mg 24s
5	Benadryl-25 Kapseals 24s
6	Dimetapp Elixir 4 oz.
7	Benadryl Elixir 4 oz.
8	Robitussin-DM 4 oz.
9	Drixoral Decongestant Tabs 10s
10	Actifed Tabs 24s

	Highest volume cough/cold formulas (retail dollars)
1	Vicks Nyquil 6 oz.
2	Alka Seltzer Plus Cold Tabs 36s
3	Benadryl-25 Kapseals 24s
4	Vicks Nyquil 10 oz.
5	Alka Seltzer Plus Cold Tabs 20s.
6	Sudafed Tabs 30mg 24s
7	Afrin Nasal Spray 1/2 oz.
8	Dimetapp Elixer 4 oz.
9	Drixoral Decongestant Tabs 20s
10	Dimetapp Extentabs 24s.
11	Robitussin-DM 4 oz.
12	Benadryl Elixir 4 oz.
13	Drixoral Decongestant Tabs 40s
14	Dimetapp Extend Tabs 12s
15	Sudafed Tabs 30mg 48s
16	Robitussin-DM 8 oz.
17	Drixoral Decongestant Tabs 10s
18	Dimetapp Elixer 8 oz.
19	Vicks Formula 44-D 4 oz
20	Actifed Tabs 24s.

	Most profitable cough/cold formulas (gross margin dollars)
1	Alka Seltzer Plus Cold Tabs 36s
2	Vicks Nyquil 6 oz.
3	Drixoral Decongestant Tabs 20s
4	Alka Seltzer Plus Cold Tabs 20s
5	Sudafed Tabs 30mg 24s
6	Afrin Nasal Spray 1/2 oz
7	Vicks Nyquil 10 oz
8	Benadryl-25 Kapseals 24s
9	Dimetapp Elixir 4 oz
10	Drixoral Decongestant Tabs 40s
11	Dimetapp Extend Tabs 12s
12	Dimetapp Extend Tabs 24s
13	Drixoral Decongestant Tabs 10s
14	Sudafed Tabs 30mg 48s
15	Robitussin-DM 4 oz
16	Robitussin-DM 8 oz
17	Contac Capsules 20s
18	Dimetapp Elixir 8 oz
19	Vicks Formula 44-D 4 oz
20	Benadryl Elixir 4 oz

Photo sales click due to 35mm format; dept. up 4%

The 35mm camera format has emerged as the clearcut winner in photo, thanks to several trends.

First, the flurry of autofocus, light and easy-to-use rangefinder cameras appeal to a huge segment of amateur picturetakers seeking quality images without a lot of fuss.

Second, a new baby boom among couples who can afford to buy photo equipment and film has made photography the No. 1 nonessential first year family expense, according to an industry study. The study pegged the average family's expenditure in a baby's first year at $222 on camera and film.

Moreover, Kodak has rejoined the ranks of 35mm camera suppliers in an affordable $70-$150 price range.

More serious, more photos

Since more serious photographers who favor 35mm over disc, instant and other formats also tend to take more pictures, still color film sales have grown 11.2% at drug chains in 1986 to $294.8 million. The total photo/video department grew 4.75% to $1.29 billion at drug chains last year.

It's all systems go for the 35mm film acceleration. According to the Photo Marketing Association, 35mm accounted for 51.3% of film sales; instant, 16.8%; disc, 15.8%; 110 and 126, 14.6%; and other, 1.5% in 1986. Industry sources estimate the 35mm share will grow to 70%-75% by the end of the decade.

That's good news for retailers for two reasons: quality image and the profits opportunity in photofinishing.

"We're finding that half of our processing business is now being done for serious 35mm photographers," one chain drug manager told *Drug Store News* recently. "There has probably been a shift of as much as 20% in our business recently to that segment."

While photofinishing promotions remain an integral part of the drug store merchandising scene, merchants are clearly moving to increase their photofinishing service and quality levels. Some are experimenting with mini-labs, and virtually all seek to cut developing costs—and thus retail prices—to the bone.

35mm film competition

In the 35mm film market, Fuji and 3M are posing some aggressive competition to Kodak with an array of sports promotions and other efforts. Some retailers said private label film programs helped produce photo department growth.

Meantime, in the arena of instant photography, Polaroid said that Spectra camera users consume film at a rate 40% higher than other Polaroid camera users.

	Highest volume cameras
1	Polaroid LMS 600 Free Film
2	Kodak Disc 3100
3	Kodak Tele Disc

	Most profitable cameras (gross margin dollars)
1	Kodak Disc 3100
2	Kodak Tele Disc

	Fastest moving photo products (unit sales)
1	Polaroid 600 High Speed
2	Kodacolor CA 135-24
3	Kodak CB 110-24VRG 200
4	Kodacolor HR Disc Single-pak
5	Kodacolor CB 135-24 Vr-G 200
6	Kodak CM 135-24 VR 400
7	Kodacolor HR Disc Doublepak
8	Kodacolor CA 135-36 VR-G 100
9	Polaroid 600 Speed Twinpak
10	Kodak CM 135-36 VR 400
11	Polaroid SX-70 Time Zero
12	Kodacolor CB 135-36 VR-G 200
13	Kodak CB 110-12 VR-G 200
14	Kodacolor CM 110-24 400SPD
15	Polaroid SX-70 Twin pak
16	Kodak CB 126-24 VR-G 200
17	Sylvania Magicube
18	Sylvania Super 10 Flip Flash

	Highest volume photo products (retail dollars)
1	Polaroid 600 High Speed
2	Polaroid 600 Speed Twinpak
3	Polaroid SX-70 Time Zero
4	Polaroid SX-70 Twinpak
5	Kodacolor HR Disc Doublepak
6	Kodacolor CA 135-24 VR-G 100
7	Kodacolor CB 110-24 VRG 200
8	Kodak CB 110-24 VRG 200
9	Kodak CM 135-24 VR 400
10	Duracell Alkaline AA 2 pk
11	Kodacolor HR Disc Singlpak
12	Kodacolor CA 135-36 VR-G 100
13	Kodak CM 135-36 VR 400
14	Kodacolor CB 135-36 VR-G 200
15	Kodacolor VR 1000 CF135-24
16	Kodak 35mm K40
17	Kodak CB 110-12 VR-G 200
18	Kodak CB 126-24 VR-G 200
19	Kodacolor CM 110-24 400spd
20	Polacolor 108 Single Pk#108
21	Sylvania Magicube
22	Sylvania Super10 FlipFlash 2 pk
23	Sylvania Flash Bar

	Most profitable photo products (gross margin dollars)
1	Polaroid 600 High Speed
2	Polaroid 600 Speed Twinpak
3	Polaroid SX-70 Time Zero
4	Kodacolor HR Disc Doublepak
5	Kodacolor CA 135-24 VR-G 100
6	Kodacolor CB 135-24 Vr-G 200
7	Kodak CB 110-24 VRG 200
8	Polaroid SX-70 Twinpak
9	Kodak CM 135-24 VR 400
10	Kodacolor HR Disc Singlepak
11	Kodacolor CA 135-36 VR-G 100
12	Kodak CM 135-36 VR 400
13	Kodacolor CB 135-36 VR-G 200
14	Kodacolor VR 1000 CF135-24
15	Sylvania Magicube
16	Sylvania Super10 FlipFlash 2 pk
17	Sylvania Flash Bar
18	Sylvania Super 10 FlipFlash
19	Kodak CB 110-12 VR-G 200
20	Kodak CB 126-24 VR-G 200
21	Kodak 35mm K40
22	Kodacolor CM 110-24 400spd
23	Polacolor 108 Single Pk#108

TRENDS

Triple A Product Study

Variety, promotions perk baby needs

Baby needs are developing into one of the more dynamic drug store categories.

Chains are refining their product mixes in diapers to make way for new slimmer versions that are more space-efficient. Yet they have found that pricing continues to be a cutthroat business, particularly against the supermarkets.

Chains used promotions of the latest in diapers to draw young mothers into their stores, but are often being forced to hit low-margin price points of under $10 on diaper packs. Chains nationwide emphasized offers of popular diapers such as Pampers Ultra, Huggies Super Trim and Luvs Super Baby Pants.

But they were able to recover margins in other segments of the baby needs category, which is becoming more varied with introductions such as Revlon's Care For Kids, comprised of two mousse shampoos, and other products designed for children.

Items such as feeding dishes, rattles and toys, usually impulse-pegged, could produce the margins lacking in baby diapers.

Chains such as Revco, Harco, Happy Harry's and Begley reduced footage of thick diapers in favor of the new launches in the $2.8 billion disposable diaper business. But buyers didn't necessarily add facings to vendors' selections. If new products came in, old ones were culled. Or chains introduced their private label slimmed-down diapers.

After several years of stiff price wars on diapers, chains began to show some resistance against selling them as loss leaders in order to be competitive. However, most margins dipped below 10%.

It's hard to give up the class of female shopper who buys diapers, since she is likely to spend on a wide variety of health care and beauty needs, buyers believe.

Thus, typical pricing produced razor-thin margins.

Fastest moving baby formula
(unit sales)

1	Similac Ready To Feed w/iron 32 oz.
2	Isomil Ready To Feed 32 oz.
3	Similac Ready To Feed 32 oz.
4	Enfamil Ready To Feed w/iron 32 oz.
5	Isomil Concentrate 13 oz.

Highest volume baby formula
(retail dollars)

1	Similac Ready To Feed w/iron 32 oz.

New regimens pump sales in lens care

Lens care remains a lively growth category, as new regimens surface and doctors emphasize compliance.

While sales growth isn't close to the 35% to 40% annual rate that occurred when soft lenses became popular in the late 1970s, the category is still growing 10%-15% at drug stores.

Eye care sales in drug stores reached $100 million in 1986, up from $88.5 million of the previous year, as hydrogen peroxide-based regimens, including Ciba Vision Care's AOSEPT and LENSEPT, CooperVision's MiraSept, Bausch & Lomb's Quick-Sept and Allergan's Oxy-Sept gained shelf space. These, and new aerosol spray salines by such vendors as Allergan, caused extensive remerchandising of shelves.

The heat-free and preservative-free hydrogen peroxide systems promised greater convenience and elimination of the risk of eye reactions.

But Bausch and Lomb's traditional cleaning systems continued to dominate shelf space.

Fastest moving eye/lens care products
(unit sales)

1	B&L Sensitive Eyes Solution
2	Unisol 4 Saline Solution Twinpak
3	Visine Eye Drops 1/2 oz.
4	B&L Sensitive Eyes Solution 8 oz.

Highest volume eye/lens care products
(retail dollars)

1	B&L Sensitive Eyes Solution 12 oz.
2	Allergan Lens Cleaner Tabs 24s
3	B&L Saline Solution 12 oz.
4	AOSEPT Disinfecting Solution
5	Flex Care Disinfecting Solution 12 oz.

Most profitable eye/lens care products
(gross margin dollars)

1	B&L Sensitive Eyes Solution 12 oz.
2	Allergan Lens Cleaner Tabs 24s
3	AOSEPT Disinfecting Solution
4	Flex Care Disinfecting Solution 12 oz.
5	Allergan Lens Cleaner Tabs 48s

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TRENDS

Triple A Product Study

Trade-up and professional sales help stationery grow 10% to $1.4B

Changes in the nation's workplace and stronger merchandising efforts are combining to propel stationery sales at drug stores.

The surge in home offices continues to draw stationery business away from downtown business centers and create opportunities for rural and suburban merchants to sell more office, filing, mailing and organizing products.

In addition, consumers are ready, willing and able to trade up to better quality, higher fashion and longer lasting goods. Stationery is no longer perceived by the broad public as utilitarian. Fashion plays a definite role it hasn't had before.

The trade-up sale and the professional sale translate into higher average tickets in the department and continued replenishment visits. This strong trend, which appears to be long-lasting, has produced two consecutive solid growth years for the department at drug chains.

Following a 13% sales increase in 1985, stationery grew another 10.1% in 1986 to $1.49 billion at drug chains.

Highest volume stationery products
(retail dollars)

1. Crayola Crayons 24 ct.
2. Bic Mechanical Pencil 5 pk & 2 free
3. Crayola Markers Asst. Colors 8 ct.
4. Crayola Crayons 16 ct.
5. Crayola Crayons Jumbo 8 ct.

Fastest moving stationery products
(unit sales)

1. Crayola Crayons 24 ct.
2. Crayola Crayons 16 ct.
3. Elmers School Glue 4 oz.
4. Scotch Magic Cell Tape 3/4 X 300
5. Scotch Magic Cell Tape 1/2 X 450

Most profitable stationery products
(gross margin dollars)

1. Crayola Crayons 24 ct.
2. Bic Mechanical Pencil 5 pk & 2 free
3. Crayola Markers Asst. Colors 8 ct.
4. Elmers Glue-all 4 oz.
5. Crayola Crayons 16 ct.

Double-strength antacids pull sales

Double-strength formulas are the darling of the antacid category, in large part because their greater effectiveness provides more relief and makes them more convenient to use.

Indeed, industry research shows that double strengths cater to the heavy repeat purchaser of antacids who is known to be brand loyal. A whopping 80% of the category's volume is generated by less than 10% of antacid users.

While shoppers flock to the double strengths such as Mylanta II and other brands, they haven't been wooed successfully by products bearing calcium or low-sodium claims.

Where calcium is concerned, the claim is seemingly not distinctive enough to draw much attention.

Highest volume antacids
(retail dollars)

1. Mylanta II 12 oz.
2. Mylanta Liquid 12 oz.
3. Maalox Plus Suspension 12 oz.
4. Pepto Bismol Liquid 4 oz.
5. Maalox Suspension 12 oz.

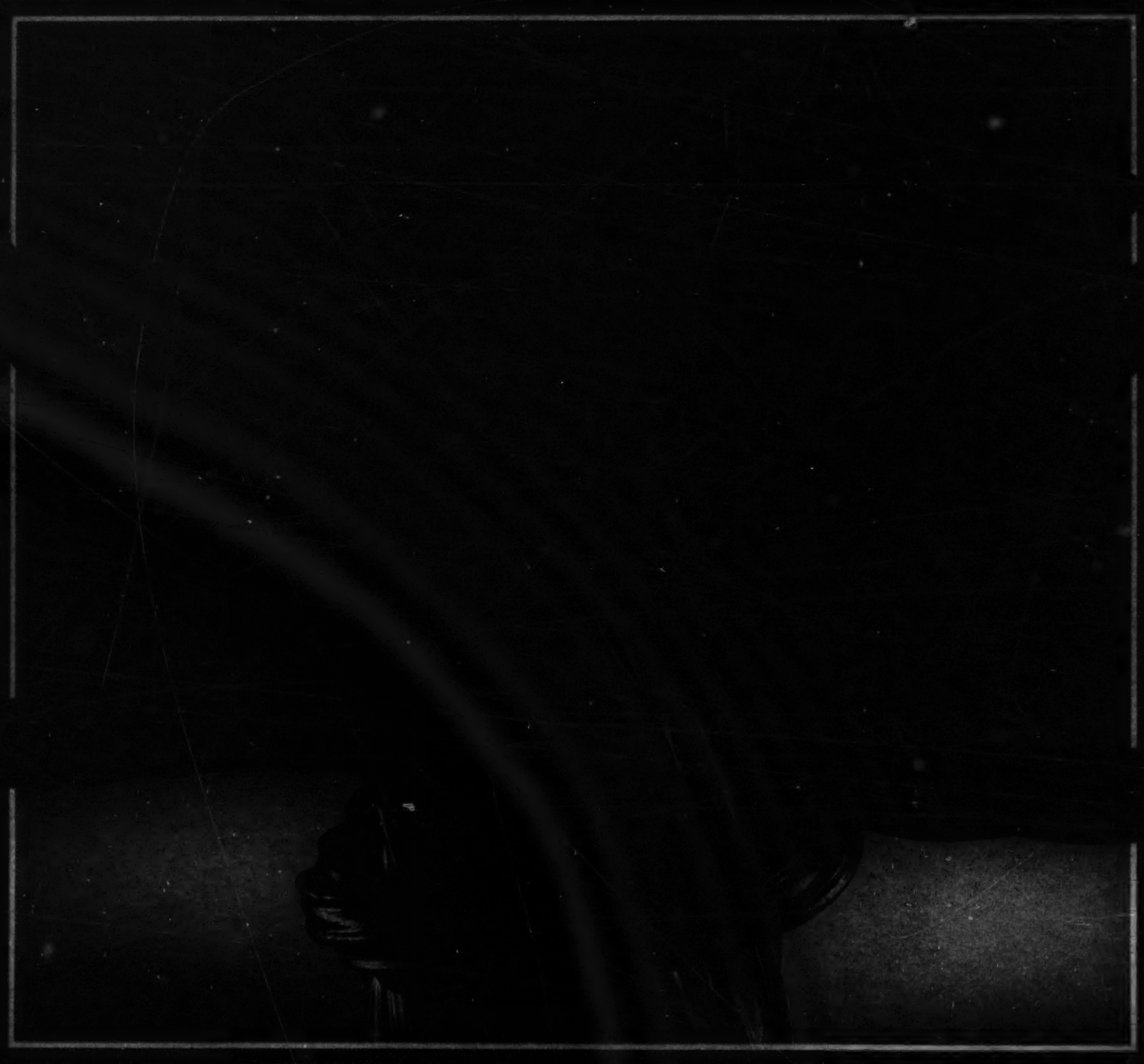
Fastest moving antacids
(unit sales)

1. Mylanta Liquid 12 oz.
2. Mylanta II 12 oz.
3. Maalox Plus Suspension 12 oz.
4. Pepto-Bismol Liquid 4 oz.
5. Pepto-Bismol Liquid 8 oz.

Most profitable antacids
(gross margin dollars)

1. Mylanta II 12 oz.
2. Mylanta Liquid 12 oz.
3. Maalox Plus Suspension 12 oz.
4. Pepto-Bismol Liquid 8 oz.
5. Maalox Suspension 12 oz.

TIE INTO FRESH SALES WITH BRACH'S.



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Triple A Product Study

TRENDS

Ibuprofen, caplets help analgesics category thrive

Despite the tragic Tylenol cyanide tamperings of several years ago, the analgesic category continues to flourish, sparked by the introduction of a new caplet dosage form, an influx of ibuprofen products and renewed interest in aspirin being used as a preventive in repeat heart attacks.

While Tylenol continues to hold its position as the best-selling analgesic product, much credit for the category's continued success in the top 100 OTC/H&BA products over the past few years goes to the popularity of over-the-counter ibuprofen, once available by prescription only.

Since the introduction of products by Whitehall and Bristol-Myers under the brand names of Advil and Nuprin, respectively, the market has been flooded with generic ibuprofen since it went off patent in 1985. The addition of less expensive OTC generic versions of the popular analgesic has prompted retailers to take a harder look at shelf allocations, a condition that could have an adverse effect on slower moving analgesic products. But ibuprofens aren't the only analgesic products vying for valuable retail shelf space. Tylenol, once thought to be a product that couldn't recover from a critical tampering incident, has made a remarkable comeback.

Caplets the right move

While the tampering incidents had an initial devastating effect on the McNeil non-aspirin product, a switch to the popular caplet dosage form that replaced the doomed capsule proved to be the right move. Despite the new ibuprofen entries, Tylenol's most popular sku's still have also commanded a large portion of retailers' analgesic shelf space.

But the fight for shelf space may not just be a two-way split. While non-aspirin products like Tylenol and ibuprofen continue to slug it out, sales of aspirin, once a product thought to be more of an impulse purchase than demand, has had renewed vitality pumped into it since the Bayer Co., manufacturers of Bayer Aspirin, launched an aggressive campaign expounding on the use of aspirin once a day as a possible defense for patients who have recovered from a first heart attack, following FDA approval for certain high-risk individuals.

According to an FDA alert to health care professionals, many people who have survived a heart attack and those who suffer from unstable angina, or heart pain, are appropriate candidates for this new use of aspirin. The FDA's approval for aspirin's new use was based on data submitted by the Bayer Co. The FDA said that aspirin could save as many as 17,000 lives each year.

In clinical studies of men with unstable angina, the use of aspirin resulted in a 55% reduction in the development of heart attacks. In studies of patients who already suffered a heart attack, aspirin therapy resulted in a 21% reduction in the incidence of death and/or recurrent attacks.

Professional labeling of aspirin for other than normal pain symptoms is not something new. Five years ago, the FDA approved aspirin therapy for reducing the risk of recurrent transient ischemic attacks, or strokes, and related events in men.

In other research, apart from its effect on pain control, aspirin has been shown to inhibit the manufacture of prostaglandins, a family of hormone-like substances produced by cells throughout the body. Some prostaglandins can raise or lower blood pressure, cause inflammation and stimulate or prevent blood clotting. Aspirin can block the formation of the prostaglandin that helps cause blood clot formation.

1	Tylenol Ex-Strength Caplets, 50s
2	Advil tablets, 24s
3	Tylenol Ex-Strength tabs, 30s
4	Advil tablets, 50s
5	Tylenol Ex-Strength Caplets, 100s
6	Bayer aspirin tablets, 100s
7	Bayer aspirin tablets, 50s
8	Tylenol drops, 0.5 oz.
9	Tylenol Ex-Strength Caplets, 24s
10	Tylenol Ex-Strength tabs, 60s
11	Tylenol Children's Elixir, 4 oz.
12	Tylenol Chewable tabs, 30s
13	Anacin tabs, l00s

1	Tylenol Ex-Strength Caplets, 50s
2	Advil tablets, 50s
3	Tylenol Ex-Strength Caplets, 100s
4	Bayer aspirin tabs, 100s
5	Advil tabs, 100s
6	Anacin tabs, 100s
7	Tylenol Ex-Strength tabs, 60s
8	Tylenol Ex-Strength tabs, 100s
9	Advil tabs, 24s
10	Tylenol Ex-Strength tabs, 30s
11	Tylenol Ex-Strength Caplets, 24s
12	Tylenol Children's Elixir, 4 oz.
13	Tylenol drops, 0.5 oz.

1	Tylenol Ex-Strength Caplets, 50s
2	Tylenol Ex-Strength Caplets, 100s
3	Advil tabs, 50s
4	Bayer aspirin tabs, 100s
5	Advil tabs, 100s
6	Tylenol Ex-Strength Caplets, 175s
7	Anacin tabs, 100s
8	Tylenol Ex-Strength tabs, 60s
9	Tylenol Ex-Strength tabs, 100s
10	Advil tabs, 24s
11	Tylenol Children's Elixir, 4 oz.
12	Tylenol Ex-Strength Caplets, 24s
13	Tylenol Ex-Strength tabs, 30s

Laxative selection tailored to seniors

The laxative department has demanded merchandisers' attention, as sku's proliferate and shopper interest in the bulk-forming segment grows.

Chains have attempted to refine selection in departments that cater to the growing over-50 population bracket, which accounts for most laxative sales.

The stimulant laxatives, such as Fleet, Ex-Lax and Correctol, continue to have a loyal following, particularly, drug merchandisers say, among the most frequent users.

But customer awareness of fiber's dietary importance, and physicians' recommendations about bulk items being more natural stimulants, has created fertile territory for bulk brands, which chains tended to promote regularly.

Bulk item demand

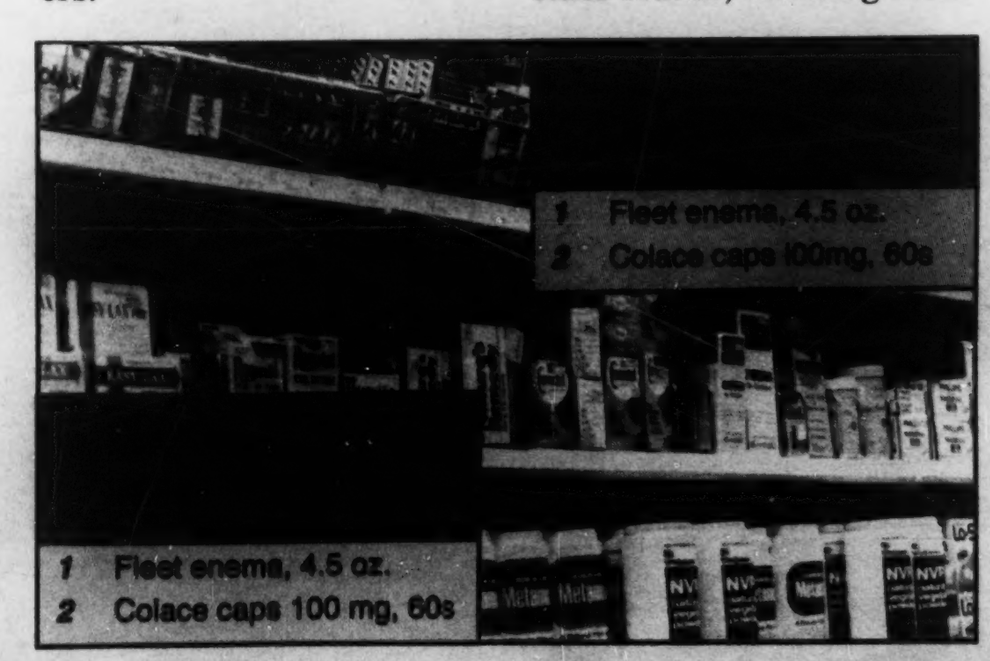
Searle's Metamucil was a promotional favorite, although such fiber products as Rydell Laboratories' Fiberall gained space in chain circulars. Fiberall made an initial impact with its sugar-free makeup—since followed by other brands, including Metamucil.

Vendors of stimulant-type laxatives recovered quickly when the FDA dealt a blow to the category by recalling danthron, a key ingredient in such top-selling laxatives as Hoechst-Roussel's Doxidan. Hoechst-Roussel responded with a May launch of a new version, with phenolphthalein replacing the suspect chemical. Adria also chose to reformulate its Modane, although Riker dropped its Dorbane rather than reformulate.

Vendors' strategies

Vendors used various selling points to gain shelf space for new products. Merrell Dow's Citrucel gained a following by emphasizing its flavor and easy-mixing ability. Lederle Labs' FiberCon came up with a calcium polycarbophil to cater to the dietary wants of shoppers, and Fiberall developed a chewable, lemon-flavored form.

Meanwhile, stimulant-type laxatives generated sales by emphasizing their kinship with the bulk segment. Correctol, for example, was positioned as having the same gentle features as bulk-forming items.



ALERT

AUGUST / SEPTEMBER ISSUE

ISSUE	CLOSING	SPECIAL FEATURES
Aug. 3	July 8	Nail Care Tax Time Nat'l Candy Wholesalers Conv.
Aug. 24	July 29	Automotive/Hardware APAA— Auto Aftermarket Show
Sept. 14	Aug. 18	"Wellness" Throughout the Drug Store NWDA Annual Meeting
Sept. 28	Sept. 2	Drug Store Format Trends Tobacco

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Triple A Product Study **TRENDS**

Multi-vitamins nourish dept. sales

While supplements such as calcium and fish oil drew the limelight, drug retailers found that sales of multi-vitamins continued to provide the backbone of their profitable, if slow-growing, vitamin departments.

Chains sold branded multi-vitamins, such as Centrum, Theragran-M and Myadec, at everyday and promotional prices, often grouping varieties of branded multi-vitamins and popular supplements such as C, E and B-complex in a single ad to give shoppers a choice.

Multi-vitamins accounted for 40% of total retail vitamin and supplement sales in 1986, hitting $1.17 billion of total sales in a $2.9 billion market. Some vendors predicted 5%-7% retail sales growth in the near future, led by the non-natural multi-vitamin segment.

Targeted to specific users

But manufacturers such as Warner-Lambert and Rexall had plans to restage their multi-vitamins in an effort to stimulate the category. Retailers said they expected to see products more finely targeted to specific users.

Calcium, a high-flier since the early 1980s, saw slowing sales when a spectrum of products were promoted as calcium-enriched, taking some sales away from the supplement form. Also, reports began to surface that questioned earlier findings citing calcium's value in preventing osteoporosis. The supplement plateaued at $200 million retail sales.

With vendors projecting burgeoning 1987 growth for fish oil, chain drug buyers were pondering the impact of negative publicity that predictably surfaced regarding that product's impact on good health.

Buyers said their oils were moving when promoted, but with consumers shying away from sku's high price points, it seemed unlikely sales will match vendors' estimates, buyers said.

Scientific support expected

Yet manufacturers were predicting that new scientific data supporting fish oil's benefits to health will emerge this year and sales will pick up when professionals become fully educated.

Chains' private label vitamins/supplements continued to grow in importance, as chains put more promotional weight behind them and rethought packaging and pricing. For example, Kinney Drug found it could better its margins on its private label without losing sales by pricing against the brands and giving a standard 25% savings, rather than pricing against competing retailers. It shifted its packaging approach toward similarity with the brands and away from a family look.

Buyers for the most part were cheered by the momentum of their private label items, which are accounting for a larger percentage of category sales and providing 10% better margins. But the stirrings of a backlash among branded vendors were in the air. Marion Labs, the maker of the Os-Cal calcium supplement, for example, planned advertising that will push a message claiming that generic supplements often aren't as efficient, due to a slow dissolution rate.

Highest volume vitamins
(retail sales)

1	Centrum 100 w/30
2	Theragran 100 w/30
3	Os-Cal 500mg 60s

Most profitable vitamins
(gross margin dollars)

1	Centrum 100 w/30
2	Theragran 100 w/30

Fastest moving vitamins
(unit sales)

1	Centrum 100 w/30
2	Theragran-M 100 w/30

Diet aids sales up 21% in drug chains

Americans feel intense pressure to be thin, and many believe over-the-counter diet aids can help them achieve a desired look.

That's good news for drug stores across the nation, which continued to notch healthy gains in the category.

Over the past two years, diet aids sales at drug chains have grown 21%, to $109.7 million, although the sales growth rate did moderate to 6.9% in 1986.

The forms of diet aids have grown more varied of late, creating new space concerns for retailers who don't want to duplicate sku's or carry many brands with modest followings.

All-day caplet added

An established brand such as Dexatrim, which had been in capsule form for years, has recently added an all-day caplet that makes an individual's weight control regimen easier. The user doesn't have to think about it for many hours.

Highest volume diet aids
(retail dollars)

1	Fibre Trim tabs, 100s
2	Dexatrim Ex-Strength caps, 20s
3	Dexatrim Ex-Strength caps, 40s

Most profitable diet aids
(gross margin dollars)

1	Fibre Trim tabs, 100s
2	Dexatrim Ex-Strength caps, 20s
3	Dexatrim Ex-Strength caps, 40s

The caplet also presumably relieves concern about previous over-the-counter capsule tampering incidents.

While manufacturers create product changes to differentiate their products, retailers are guarding against overly ambitious space expansion.

With some capsules and caplets boasting caffeine-free, extra vitamin C or calcium ingredient claims, the challenge to retailers is a rigorous one. Which do they choose: the newer products to help position their stores as first in the market with new items, or established brands with proven performance?

The question never goes away. Fiber products such as Fiber Full and Fibre Trim captured a significant following among weight loss-bent Americans who feel they can't do it alone. These items have to be taken several times a day, but offer a natural appeal and give a feeling of fullness without the use of controversial chemical ingredients.

Different forms

Powders, bars and liquids continue to play a role in the category, so retailers must show diet aids in many forms.

Some industry sources expect diet aid sales to pick up more at drug stores, as direct-to-consumer brands followings weaken. These brands account for an estimated $500 million annual sales.

What would you call a new disposable lighter designed to increase your disposable income?

Revco looks for buyers

Continued from page 3

year to help reduce long-term debt, is well ahead of schedule. The company aims to sell all of its assets with the exception of the drug store and Odd Lot divisions, as well as a total of about 100 drug stores, including Carls.

Several of the 11 divisions marked for sale, including Carter-Glogau Laboratories and Private Formulations, have already been sold off, and others, including Crown Store Equipment, Waco Equipment and Barre National, are close to final sale, the cfo stated.

"The demands of the LBO required us to strengthen our financial base and upgrade our cash mobilization resources," Cardace said. "We were supposed to be completed with our divestitures by November of 1988, but at this point it looks like we'll probably be finished by January of '88. We're well ahead of schedule."

Likely candidates

Several drug chains have been cited by retail analysts as likely candidates for the purchase of Carls, including Walgreens, Rite Aid, Fay's Drug Co. and CVS. Walgreens and Rite Aid, however, have denied any interest in the chain for strategic reasons, and both CVS and Fay's are refusing comment.

Said Walgreens spokeswoman Maryellen Kari: "We are aware that Carls is for sale, but the stores, in terms of their size and the area of the country they are located in, do not fit our current expansion plans."

Sheldon "Bud" Fantle, former Peoples Drug Stores chairman now teamed with his son Jeffrey at Fantle & Associates, has also denied interest in the upstate New York chain for similar reasons. Fantle told one local newspaper: "It's a fine company, but the geography didn't fit."

Reports that Revco chairman Sid Dworkin and Carls president Marc Dworkin may also be involved in negotiations for Carls could not be confirmed. Rumors had also arisen that the Dworkins would join with Carls managers in a leveraged buyout of the chain, but one high-level executive with Carls told *Drug Store News* he was unaware of any such move.

The senior Dworkin, who co-founded the nation's largest drug chain, relinquished day-to-day management duties in favor of new ceo Bill Edwards in early April, but remains Revco board chairman. Under terms of the original buyout agreement last fall, Sid and Marc Dworkin and Edwards all have five-year contracts with the company.

One New York-based retail analyst, who asked not to be named, predicted that Revco would have difficulty recouping the high price it paid for Carls. "It's in a market that is not among the best in the country and is not growing, so the most logical thing I see is little packages of store sales or a management-led buyout with the Dworkins' involvement," he said. "I can't see Fay's being able to do this, because they're pretty highly leveraged themselves."

Another possible buyer for Carls may be an upstate New York supermarket chain, such as Wegman's or Topps.

Albertson's

Continued from page 6

chael said the chain is not giving up on the area. In fact, he said, the first version of the combo stores is now due to be remodeled.

The chain also operates 26 24,000 to 73,000-square-feet Grocery Warehouse stores and one 60,000-square-feet Maxx Warehouse Food and Drug discount operation. Michael said Albertson's will "continue to fine-tune the formula" for the Maxx stores before opening any other locations beyond the Boise store.

Overall, the drug/pharmacy business will, however, be an area for growth, Michael said, as the chain looks to bring its 167 pharmacies to full computerization within the next few years. "We will continue to develop the pharmacy program to make us more competitive. We think pharmacies are important to make us complete," Michael explained.

Chain returns to core mix

Continued from page 3

man, switched to the low-end merchandise. However, what followed was nothing short of a public outcry, prompting Pay 'n Save to rethink its strategy.

"We are reformatting ourselves into what we are—and that's a drug store," senior vp-marketing Elmer DiFilippo told *Drug Store News*.

Changes in progress

Changes under way include the cutback of imports and expansion of drug store products, with extra footage going toward H&BA, OTC, cosmetics, greeting cards, candy and stationery.

"We've added back the sku's" that had been downplayed, said DiFilippo. Gerald Nathanson, chairman, president and ceo, said imports took up about 15% of the chain's selling space, and "millions of dollars" worth of that merchandise has now been sold to Pic 'n' Save. Some imported candles and stationery will remain, but low-end giftware and kitchen gadgets are gone, DiFilippo said.

Because Pay 'n Save kept the gondolas it pulled when it originally put in the import tables, the capital investment required for the current reformatting is minimal. It is "not requiring a great deal of money," but rather muscle, DiFilippo said, adding that internally generated cash is funding the reformat.

Once the entire reformatting project is complete, the chain will begin advertising the change to its customers, but not until that time, said DiFilippo. "We don't want to promise any more than what we can do," he noted.

Without detailing the new advertising strategy, Nathanson said it will be "more sophisticated and tougher."

Pay 'n Save to open units

Continued from page 3

arrangements. These deals, along with the pullout from weaker markets such as Montana and Wyoming, are helping to fund Pay 'n Save's growth.

In its attempt to become the store of choice in its markets, Pay 'n Save will target "health items, cosmetics and toiletries as the core of our business. . . . To complement these areas, we will then focus on our 'power' departments, such as stationery, household chemicals, greeting cards, candy and snacks," Nathanson said.

In addition, Pay 'n Save will begin to use an updated pharmacy computer system, which will save pharamacists time and allow for telephone solicitations.

Moreover, the chain intends to price more competitively, use private label extensively and add new in-store signage. Although the chain has eliminated much of its import merchandise, some products will remain, said Nathanson. The excessive merchandise Pay 'n Save had has been sold to Pic 'n' Save. Lawsuits by Pic 'n' Save against Pay 'n Save, its officers/directors and Drexel Burnham Lambert—stemming from the import program introduced by the drug chain last year—have been dismissed, both chains said.

As much of the import merchandise is phased out, some new categories have been introduced, including jewelry, family hosiery, foundations, travel-size H&BA products and a video rental program, Nathanson said.

Although the company is looking positively at its future, the chain acknowledged its recently released poor second-quarter results. Sales at Pay 'n Save fell to $106 million in the quarter, compared with $113 million in the same period the previous year. However, part of the drop was due to the closing of the five Montana and Wyoming stores in February, Nathanson noted. For the first six months of the fiscal year, Pay 'n Save sales of $240 million showed a drop over the previous year's level of $255 million.

Bi-Mart's performance

Bi-Mart—the corporation's Eugene, Ore.-based discount operation purchased last year—had sales of $51.6 million in the second quarter and $117 million in the first six months of the fiscal year. (Because the company did not own Bi-Mart in the same periods in fiscal 1986, there are no comparable sales figures.) Bi-Mart currently operates 34 stores.

Second-quarter net loss for the entire operation was $8.64 million, compared with a loss of $8.90 million in 1986. For the first six months, the company lost $8.36 million, compared with a loss of $10.8 million in the previous year.

Nathanson said the second quarter should be the worst quarter of 1987. He declined to project how the company would end its fiscal year in November. He did note, however, that the company is "optimistic that both sales and profits will rebound accordingly."

Brooks' plans are unclear

Continued from page 3

ters to build traffic.

Front-end scanning and pharmacy computers were slated for partial rollouts to help the chain manage inventory better and operate more efficiently.

Tied to that was Sudhaus's extensive recruitment from CVS, a competing chain well-regarded for its data systems and operations. Executive vp-marketing John Jennings, executive vp-store operations Gary Mercer and vp-merchandising Richard Morrissey are among managers who have brought CVS disciplines to Brooks.

Wanted better real estate

Brooks was also gearing up to move into more prime real estate sites. Noting that 70% of the chain's sites are in small- to medium-sized towns, and less than 10% are owned, Sudhaus sought to assume an aggressive real estate posture "even if we have to become a landlord to get it." He continued to feel strongly that "bantams can survive in less populated areas that are slightly out of the way."

A source familiar with the company told *Drug Store News* that Brooks typically pays less than $4 per square foot rent, and its leases have good renewable options.

Under Sudhaus, Brooks closed 10% of its stores—among weaker units—as it contracted from 417 stores to 375 currently. The chain's plan was to leave weak markets and concentrate on areas where it had a presence.

May be some changes

In moving from Sudhaus, who became at age 38 one of the retail drug industry's youngest presidents, to Folz, an experienced vendor to the drug trade, Brooks may be headed for changes, market sources felt.

Some believe it sets the stage for the second attempt by MacAndrews in two years to sell the chain. The speculation is that Ronald Perelman sought Sudhaus for this eventual energy field opportunity and placed him at Brooks "to keep him in the MacAndrews stable" and oust the Salmanson family in 1985.

Today, they say, improved chain performance and the value of Brooks leases might make it a more attractive candidate for sale. Since Folz is an outspoken, high-profile executive known to many in the trade, he makes a more suitable pitchman than Sudhaus, who never sought to become a public figure in the retail drug field, they believe.

On the other side is the feeling that Sudhaus set the wheels of positive change in motion and is now free to take on fresh challenges within MacAndrews.

Longs Drug leaving Phoenix market

Continued from page 3

nation's fastest growing and competitive retail markets.

However, Longs president Bob Long told shareholders at the annual meeting last month that the 225-store chain's growth emphasis this year will be in California and Colorado.

Longs is buying 11 Osco stores in California, and one in Colorado Springs, Colo. (making four stores there, and six in the state). The California units—former Sav-ons—are in Bakersfield (four), Campbell (one), south San Francisco (one), Cupertino (one), San Jose (two) and Santa Clara (two), and raises the roster of Longs' California units to 185.

"This allows us to focus in markets where we are very well-known," said Bill Combs, vp-administration and treasurer.

Market observers told *Drug Store News* it seemed to them that Longs wasn't large enough to obtain the best economies on such costs as advertising in Phoenix.

Longs had been supplying the stores by direct vendor shipments and through jobbers. Osco services its Phoenix units from an Anaheim, Calif., warehouse.

Bob Braden, vp-advertising at Osco, said that the sale places Osco "virtually out" of northern California.

"(The Phoenix buy) allows us to get good market coverage," said Braden. Osco will move from having 20 units in Phoenix and five in Tucson to 30 in Phoenix and 10 in Tucson.

The deal "afforded both companies some excellent opportunities to fill out some important markets," Braden said.

A source said that Osco paid a cash amount in acquiring the Longs stores.

Longs had entered the market with a bang in 1983 by undercutting everyone on price, before prices leveled off. The chains today work on 2% to 8% margins on the top 150 H&BA items, averaging 18% to 20% on other front-of-the-store merchandise, a source said.

One local wholesaler said the Longs units seemed top-notch in appearance and were competitive.

With comparable size stores in the 22,000- to 25,000-square-foot range and a similar mix of merchandise, the Longs units won't require extensive merchandise overhauls. But Osco has been put to work hiring, since Longs has taken many employees with them.

FOOD MERCHANDISING

FOR NON-FOOD RETAILERS

Summer, 1987

Household products: The four highest tonnage non-edible grocery categories & how nonfood chains have come to appreciate them

Nonfood chains get "trendy: with beverages. Juices and bottled waters now round-out soft drink sections.

On the Trail of Incremental Sales: Grocery manufacturers & nonfood retailers "partner" in building new opportunities

Special Report

Membership Clubs: $8 billion industry should triple in sales by 1990

How membership clubs use groceries to generate case lot turns and bottom line profits

Food for Thought 5
Meet the new kid in town: Membership Clubs

News Basket 7
How K mart uses groceries to hype holiday traffic

Sami: Category seasonality report 9
The foods and nonfoods to promote this spring

Partners in Profits: Grocery Manufacturers & Non Food Retailers 11
Today's new partners are working together to generate incremental sales while protecting and expanding market shares

Membership Warehouse Clubs: Retail's Most Formidable Competitor 17
Sales for this new retail segment were up 82% last year to $8.2 billion. By 1990, analysts estimate there will be over 600 membership clubs with sales in excess of $21 billion

Beverages in Non Food Stores 23
Mix today includes juice, bottled waters and asceptic packs as well as soft drinks. The goal: build traffic and enhance profits

Household products & cleansers 27
How nonfood chains are turning to the highest tonnage nonedible groceries to lure price conscious, convenience minded shoppers

K mart Uses Groceries To Hype Holiday Traffic

Grocery products lend themselves brilliantly to seasonal promotions. Buyers and merchandisers who are planning Thanksgiving promotions now should take a look at K mart's 1986 Thanksgiving circular.

Dry grocery items accounted for 83% of the 12 items on the circular's front page.

Most dominant were an aluminum foil, K mart's own store brand, Ocean Spray cranberry sauce, Libby's pumpkin pie mix, Stove Top stuffing mix and three packages of chocolate bits: Reese's peanut butter cups and Hershey's milk chocolate chips and semi-sweet chocolate chips.

Also on the page were Eagle Snacks Honey Roasted Peanuts, K mart's own paper towels as well as a variety of 20 and 30 gal. trash bags.

Inside the circular, K mart did a spread on clip and save coupons which featured a number of other grocery products including cookies, smoked oysters, egg noodles, candies, plastic tumblers, liquid all-purpose cleaners, laundry detergents and light bulbs.

Managers said their sell throughs on the featured items were "excellent."

The Foods Shoppers Buy The Most

Here's a puzzler for you. The answers are milk and bread. Now what was the question?

Did you say "what are the two most frequently purchased categories in a grocery store"?

Well if you did say that, then you get the brass ring because, according to the latest Point of Purchase Advertising Institute Food Store Shopper Buying Habits study, that is what shoppers do buy most frequently when browsing for groceries.

In the fall of 1986, POPAI did a full scale shopper purchase habit study in 20 markets across the country. Their researchers recorded over 65,000 purchases made by a total of 4,000 food shoppers.

The Food Categories Bought Most Frequently

% of purchases per every 100 shoppers

Milk	33%	Refrigerated orange juice	8%
Packaged bread	25	Ice cream	6
Eggs	14	Bacon	6
Chicken	12	Potato chips	6
Crackers	11	Concentrated orange juice	5
Cookies	10	Hotdogs	5
Ground beef	10	Corn chips	3
Packaged luncheon meats	8	Snack nuts	3

Source: POPAI 1986 Consumer Buying Habits Study

In their preliminary analysis of that data, POPAI found that for every 100 shoppers interviewed during a typical shopping trip, 33 purchased milk, 25 purchased packaged bread, and 14 bought eggs.

Eleven out of every 100 bought crackers, 10 bought cookies, eight bought refrigerated orange juice and packaged luncheon meat.

Six bought ice cream, bacon and potato chips; 5 bought concentrated orange juice and hotdogs, and 3 bought corn chips and snack nuts.

With the exception of chicken and ground beef, which were also mentioned as frequent purchasers, each of the categories cited are normally found today in most chain drug stores while the dry groceries cited are also found in almost every discount and mass merchandise store.

Says Eckerd food buyer Peter Agostinio: "These categories for us are 'opportunistic' additions to our everyday mix. They help us build traffic and they increase the frequency or repeat visits to our stores."

Glad's Million Dollar "Mystery" Promotion

The Glad food storage and trash bag line will be featured this summer in a new movie being released by Dino DeLaurentis Productions.

The movie, called a Million Dollar Mystery, co-stars Glad spokesman Tom Bosley as a man who knows the whereabouts of some $4 million in hidden booty.

Throughout the course of the movie, various actors find the bulk of the hidden treasure, but at the end of the movie some one million is left unaccounted for.

In an unusual prologue, Bosley reappears on screen after the movie ends and gives the audience tips on how they can find the missing million.

He tells them to look for clues in packages of Glad products. Consumers who successfully interpret the clues to guess the hiding place of the money will be eligible to compete in a Glad sweepstakes. The grand prize is the mystery million.

Drug, discount and food stores are backing the promotion by allotting endcaps and other in-store display vehicles to the Glad line for the late June/ early July period when the contest should be at its peak. The sweepstakes drawing is in late July.

Best Selling Categories of Spring

The chart below lists the best selling categories in food stores for the months of March, April and May.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ended in May 1986.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.

FOODS AND GROCERIES: BEST SELLERS OF SPRING
(Averaging three year index ranking)

March

Foods	Index ranking
Packaged candy non-chocolates	256
Packaged jellies	181
Packaged solid chocolate pieces	161
Tartar sauce	146
Diet desserts	144
Canned salmon	139
Fruit rolls & bars	139
Packaged other chocolates	133
Dried prunes	127
Diet canned fruit	125
Packaged novelties	121
Dry topping mixes	120
Diet canned vegetables	120
Canned apricots	119
Ready-to-spread frosting	118
Canned peaches	118
Chocolate covered creams	117
Diet jams, jellies spreads	117
Canned pears	117
Honey	116
Dry toasted items	116
Canned spinach	116
Canned beets	115
Cereal meal bars	114
Gelatin desserts	114
Diet salad dressings	114
Canned pineapple	114
Pizza products	114
Dessert baking mix	114

Nonfoods

Car Care Products	125
Bath additives	110

April

Foods	Index ranking
Soft drink mixes	191
Iced tea mixes	158
Instant tea	146
Barbecue sauce	144
Freezer bars	143
Diet desserts	130
Fruit rolls & bars	124
Canned pears	121
Dry topping mixes	119
Canned peaches	118
Canned pineapple	118
Diet canned fruit	117
Diet salad dressings	117
Canned fruit cocktail	116
Dried prunes	116
Canned beets	116
Diet canned vegetables	115
Canned apricots	115
Frosting mix double layer	113
Bubble gum	113
Canned hams/meats	113
Relishes	113
Canned spinach	113
Diet jams, jellies spreads	112
Prepared mustard	111
Grape juice	111
Ready-to-spread frostings	110
Hard candies	110
Gelatin desserts	110

Nonfoods

Insecticides	226
Insect repellents	223
Car care products	155
Charcoal lighters	152
Charcoal	134

May

Foods	Index ranking
Freezer bars	234
Barbecue sauce	189
Relishes	170
Fruit pectin	169
Iced tea mix	162
Instant tea	161
Canned salads	157
Pork & beans	146
Soft drink mix	146
Meat sauce	130
Mustard	126
Diet salad dressings	124
Pickles	123
Pourable salad dressings	123
Potato chips & salty snacks	123
Catsup	121
Diet canned fruits	120
Spoonable salad dressings	119
Meat tenderizers	119
Diet soft drinks	117
Dry topping mix	116
Bubble gum	116
Juice/juice concentrates	116
Reg. soft drinks	116
Diet desserts	115
Single strength juice drinks	114
Fruit rolls & bars	114
Mayonnaise	113

Nonfoods

Charcoal lighters	213
Charcoal	212
Insect repellents	205
Insecticides	168
Car care products	150
Paper & plastic plates	140
Plastic flatware	137
Paper/plastic cups	122
Motor oil & car additives	116
Window cleaners	115
Paper napkins	110

Source: SAMI Seasonality Study

Membership Warehouse Club Sales Soaring

Sales for the 228 universe of Membership Clubs jumped 82% to $8 billion in 1986. Edible & nonedible groceries accounted for about 45% of total sales.

Warehouse Clubs, which are competing with drug and discount store chains on grocery retailing, as well as on such traditional categories of merchandising as HBA, sundries, low and high ticket electronics, and apparel, are continuing to show dramatic gains both in store counts and dollar sales.

According to the latest survey done by *Discount Store News*, FM's sister publication, sales for Membership Warehouse Clubs hit $8.2 billion in 1986, up an amazing 82% over 1985.

The total number of units in existence hit an estimated 228 in 1986, up 66% over the prior year.

For 1987, *Discount Store News* is estimating that dollar sales for all Membership Clubs will hit $11.6 million, which will represent an increase of 41% over the prior year.

Stores will climb on estimated 43% to 325 units, *DSN* is estimating.

Many warehouse clubs carry large assortments of refrigerated and frozen foods. The mix is on large sizes of the highest consumption categories.

Membership Clubs: The customer base and the mix

Membership Warehouse Clubs serve a relatively unique mix in the retail marketplace. A hybrid that is half wholesale/half retail, the typical mix of a warehouse club includes edible and nonedible groceries, health and beauty aids, apparel and other softwear, and a variety of hard line items ranging from televisions and stereos through tires and such gadgets as electronic garage door openers.

The customer base is predominately small businesses with off-the-street customers usually making up about 30% of a typical wholesale club's customer mix.

Margins average about 10%

Sometimes, however, the customer mix can be more in the vicinity of 50% to 50%, half small businesses buying on a cash and carry basis and half individual man/woman in the street type consumers buying by the case load on low- to mid-ticket items and in singles on high ticket items like televisions.

Membership Warehouse Clubs: Sales and Unit Growth
(1983 through 1990)

	Sales (billions)	Units
1983	$1.0	36
1984	2.4	79
1985	4.5	137
1986	8.2E	228E
1987	11.6P	325P
1988	14.2P	400P
1989	17.8P	505P
1990	21.0P	600P

E means estimated. P means Projected
Source: *Discount Store News* Research

Markups in a typical Warehouse Club are typically low to generate turns. Most Clubs say they charge wholesale prices plus a small markup of approximately 5%. Profit margins generally average about 10% overall.

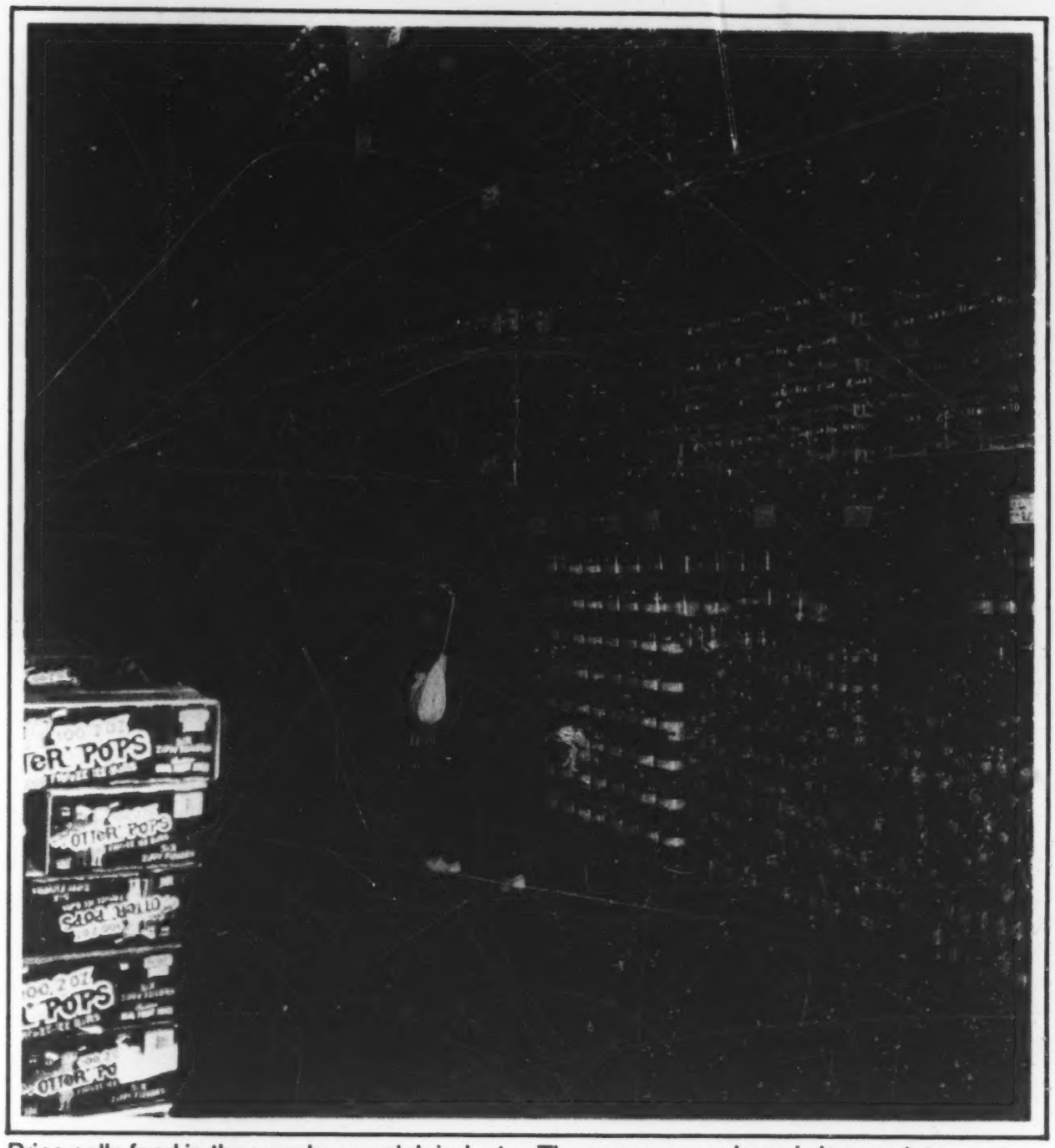
Most Clubs also charge members a fee to join as well as an annual fee to remain a member. Most Clubs also usually insist on cash payments rather than checks or credit cards.

Who's Who in Membership Clubs

The leading chain in the segment is still Price Company, whose founder Sol Price opened the first Membership Club in San Diego, Calif., back in 1976. In 1986, Price Club generated approximately $2.8 billion in sales from a universe of just 27 stores.

Second place goes to Sam Walton, the founder of Wal-Mart. Walton's four year old chain of Sam's Wholesale Clubs now numbers over 49 stores, responsible for an estimated $1.6 billion in 1986.

Costco, Seattle, Wash., is third with 1986 sales of $900 million while fourth and fifth place go to PACE, Denver, Colo., with sales of $600 million in 1986, and Super Saver,



Price sells food in the warehouse club industry. The average purchase is in case lots , and the average sale is often over $100.

Who's Who in Membership Warehouse Clubs

(Ten top chains by dollar volume: millions)

Chain/Company	HQ	1986 sales	% chng vs '85	Total Units	% chng vs '85
1. Price Club (Price Company)	San Diego, Ca.	$2.800	56%	27	13%
2. Sam's Wholesale Club (Wal Mart)	Bentonville, Ark.	1.600	106	49	113
3. Costco	Seattle, Wash.	900	146	37	118
4. PACE	Denver, Colo.	600	60	25	56
5. Super Saver	Shreveport, La.	400	34	20	122
6. B.J.'s Wholesale Club (Zayre Corp.)	Boston, Mass.	350	75	15	36
7. Makro	Cincinnati, Oh.	290	21	4	0
8. Price Savers (Kroger)	Cincinnati, Oh.	200	33	6	20
9. Warehouse Club	Skokie, Ill.	185	108	14	100
10. The Wholesale Club	Indianapolis, Ind.	140	46	11	120

Source: *Discount Store News* Survey

Shreveport, La., with sales of $400 million in 1986.

B.J.'s Wholesale Club, a division of Zayre, Boston, was in sixth place in 1986 with sales of $350 million a year, and Makro, Cincinnati was seventh with sales of $290 million.

Altogether the 10 leading Wholesale Club chains in 1986 accounted for about 64% of all Membership Club dollar sales. In 1986, these 10 chains generated an estimated total of $7.5 billion, all off a universe of just 228 stores.

Sales will hit $20 billion by 1990

Most Membership Club executives and most analysts who follow the segment believe the total dollar sales will reach $20 billion by 1990.

Some sources, such as Walter Teninga, President of the $185 million Warehouse Club chain in Skokie, Ill., think that the estimate of $20 billion in annual industry sales by 1990 is even too "conservative."

Fred Windsor, a retail analyst with Alex. Brown & Sons, Baltimore, says that while it is impossible to predict how many Warehouse Clubs the country can ultimately absorb, he does believe that "expansion in this segment will be swift."

Windsor agrees with other analysts that the store universe will probably hit 600 to 700 by 1990.

"There is room in every major city for a number of Membership Warehouse Clubs," says Joseph Nusim, chairman of the Makro Self Service Wholesaler Club based in Cincinnati. Makro, with its four stores, is the seventh highest volume chain in the segment.

"We, as an industry," he says, "have only begun scratching the surface."

What makes Membership Clubs work

The secret to a Membership Club's success, sources say, is the ability to turn a limited inventory of between 3,000 to 3,500 sku's anywhere between 12 and 20 times a year.

The industry's most successful chain, Price Club, boasts turns of between 18 and 25 a year on a mix of about 3,500 sku's.

Like Price Club which generates about 60% of its sales through wholesale customers, the more successful chains are concentrating on targeting their customers mix to small businesses doing a high tonnage cash and carry business rather than to individual consumers doing a cherry picking "stock up" business.

60% to 70% of customers are small businesses

Jeffrey H. Brotman, chairman of Costco, the industry's third highest volume chain, says that 70% of Costco's sales are now generated by wholesale purchases.

"Maybe we're wrong," says Brotman, "but we think we can do a better business by keeping out the casual customer, and by concentrating on a smaller group of more loyal customers instead."

"At one time, we were only generating about 40% of our sales through wholesaler purchases," says John Geisse, chairman of the Wholesale Club in Indianapolis.

"Today, our wholesale business is up to 69% of our sales, and we're working very hard to keep increasing that share."

Membership Clubs Push Groceries

Best sellers are case lots, shrink wrapped packages, large sizes and anything consumable that offers the customer a "value"

Grocery product sales in wholesale clubs are booming.

Both retailers and manufacturers report that sales of snacks, pet foods, dry and packaged groceries, beverages and grocery household items are growing like "crazy" in the $8 billion dollar Membership Warehouse Club industry.

The majority of the business is being done, say sources, in large size packs or in shrink wraps that are generally merchandised off massive in-store bulk displays.

The selection in a membership club is seldom extensive, but the displays are huge and some categories like snacks get an average of 32 running feet plus extensive exposure on pallets and end caps.

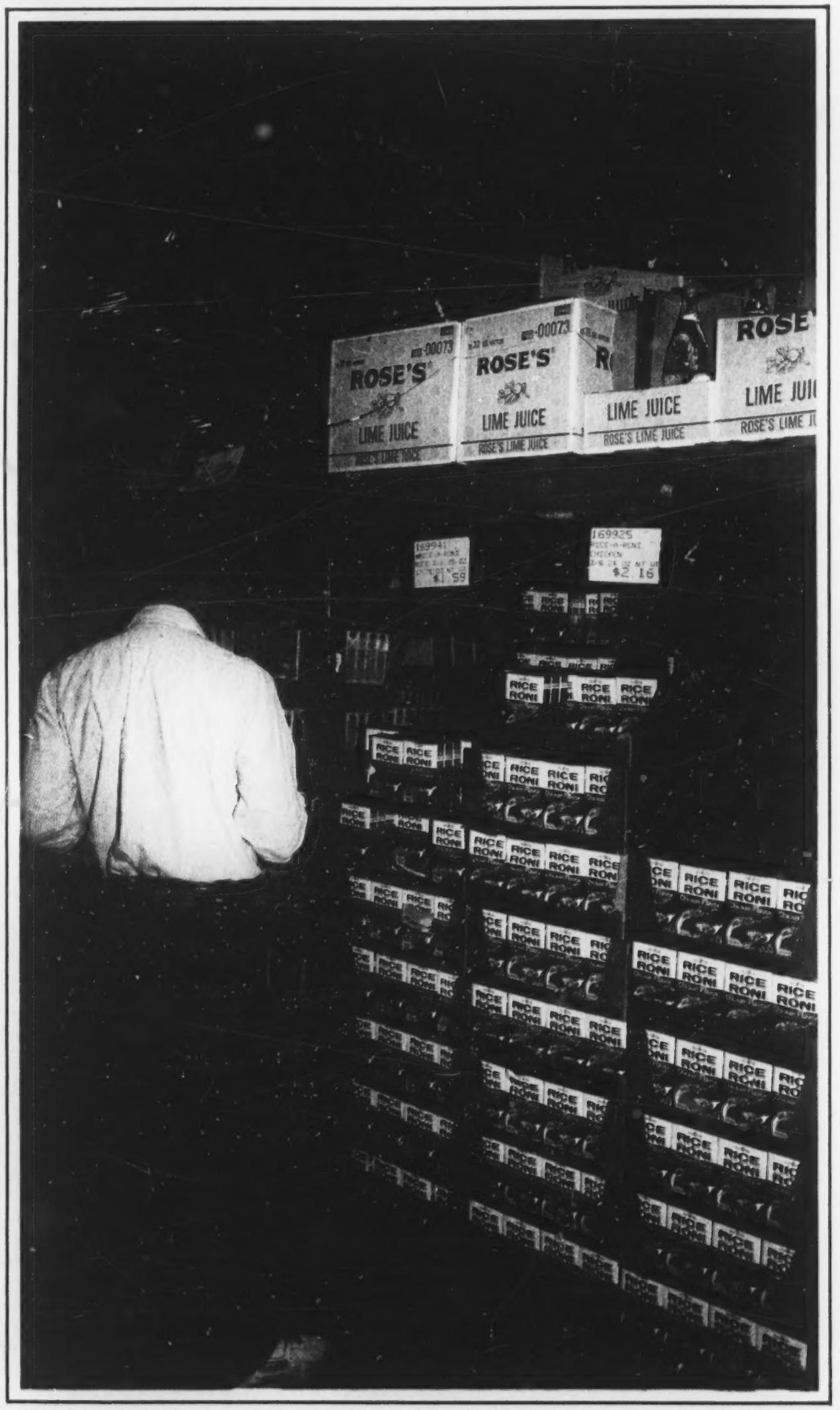
Generally Membership Club stores will only stock grocery items they've acquired at the lowest possible acquisition cost, and when they display these items, they're at the lowest possible competitive price.

Customers like to buy in huge quantities

"When a customer in a Membership Club store buys a snack or a grocery item," says Wrigley's Ron Cox, "they're usually buying full box quantities. That means the sale is usually a high ticket and it usually amounts to someone buying 12 packages at once or 20 or 24 depending on how many items are packed to a case."

"The Membership Warehouse Clubs," says Chris Abernathy, VP of Marketing for Borden's, "are places where people are buying commodities. They are not taking that much business from the traditional food stores, but they may be taking it from the mass merchandiser who tries to compete with the food stores on price.

"If someone is price conscious, there is no better place to buy a grocery item, but these stores are not that convenient yet, and they are more accessible to the small business person than they are to the average consumer so the bulk of their



About half the customers who buy food in a warehouse club are off-the-street consumers while the rest are small business buying in case lots to replenish their own stockrooms.

Some warehouse chains are trying to use their food departments to give customers "extra value." Trial generating strategies are popular.

impact right now seems to be on the smaller wholesalers and rack jobbers."

Most wholesale clubs locate their grocery type products toward the front of the store, in departments that are either close to or adjacent to the checkouts.

Bulk of sales are to small businesses

Between 55% and 66% of all their grocery product sales, sources estimate, are to local, small retail businessmen in their neighborhoods.

One such customer says that he prefers to shop the Membership Clubs whenever possible because on select items they can give him a better discount than he can get from his own traditional suppliers.

"They buy on deal," he says, "and in such massive quantities, that they can give me a better price than my own wholesaler who doesn't always take full advantage of the manufacturers discounts for volume purchases."

"The wholesale clubs are not hurting the traditional food retailers," says one rack jobber who competes with a Price Club in San Diego. "They're hurting guys like me. I can't afford to buy hundreds of thousands of dollars of packaged groceries on deal as they can. Consequently I can't offer my customers their low margins. The people who buy from them are my customers out looking for bargains that I can't offer."

Manufacturers court the Membership chains

Most grocery manufacturers are very conscious of the growth potential of this market and most say they are aggressively pursuing this marketplace, primarily by adjusting their marketing programs to accommodate the needs of the Membership Club operators.

At the end of 1986, total sales in the wholesale club industry were about $8 billion, up from about $2 billion in 1984. Industry sources estimate that there were about 200 stores that could be classified as Membership Warehouse Clubs in the country in 1986 with their numbers expected to exceed 325 by the end of 1987.

Discount Store News, *FM*'s sister publication, is predicting that total industry sales will hit $20 billion by the end of 1990.

With the industry going through such explosive growth, many grocery manufacturers like Borden's, Nabisco, General Mills, etc., either are already customizing marketing programs specifically for this marketplace, or they are thinking of doing so.

Chris Abernathy at Borden's says his company is considering producing a 2-lb. bag of chips for the Membership Clubs plus they're willing to shrink wrap existing package sizes.

"We did the same thing for the mass merchandise stores when we created the Ranch Fries line," he said, "and when we created a canister package for Ranch Fries. The canister sells best in the mass merchandise stores because their shopper tends to buy the bigger sizes."

At Eagle Snacks, VP of Marketing Tim Fleming says his company is not doing any special packaging yet but is "thinking of it. They're pressuring us for shrink wrapped packages and they want to carry our largest sizes."

At Nabisco, Don Marler who is in

charge of all sales into nonfood outlets, says his company is shrink wrapping products for wholesale clubs on request.

Marler says the wholesale clubs are especially hungry for fast moving items that can be shrink wrapped to yield a higher average ticket.

"Ritz crackers, Planter's Peanuts, the Wheat Thin crackers, these are the types of things they're most interested in. They're interested in one set price where they know that if they buy a specific quantity, they can have that price on a constant basis, and not just monthly or for that quarter."

Controlling product freshness still a problem

A few manufacturers, however, who have to worry about the freshness of their product are still shying away from the Membership Club market. One source for Whitman's chocolates said their management was concerned about "maintaining the quality of our products in this market.

"There are so many small retailers involved who are their customers," he said, "that it's difficult for us to control the distribution of our products so we've elected not to distribute there yet. But there is no doubt that it is a dynamic market with a great potential for additional sales growth."

"Food and other grocery product sales in wholesale clubs," says Jim Marx, a salesman with the Pankow broker agency in Chicago, "are growing at the rate of 25% a year and better.

"I think they'll continue to grow this fast for a number of years, primarily because the consumer today is so price conscious."

A few chains play down the role of groceries in their Membership stores, reasoning as California's Save Club's president Victor Barkhordian puts it that watching customers carry doughnuts, cheese and milk to the register can really "cool off the customers making a $250 purchase."

However, according to *FM*'s research, grocery products, including pet foods, beverages and household chemicals and paper goods, currently account for about 45% of all Membership Club purchases. Some chains like Makro in Cincinnati do better than 55% of their total business in grocery sales.

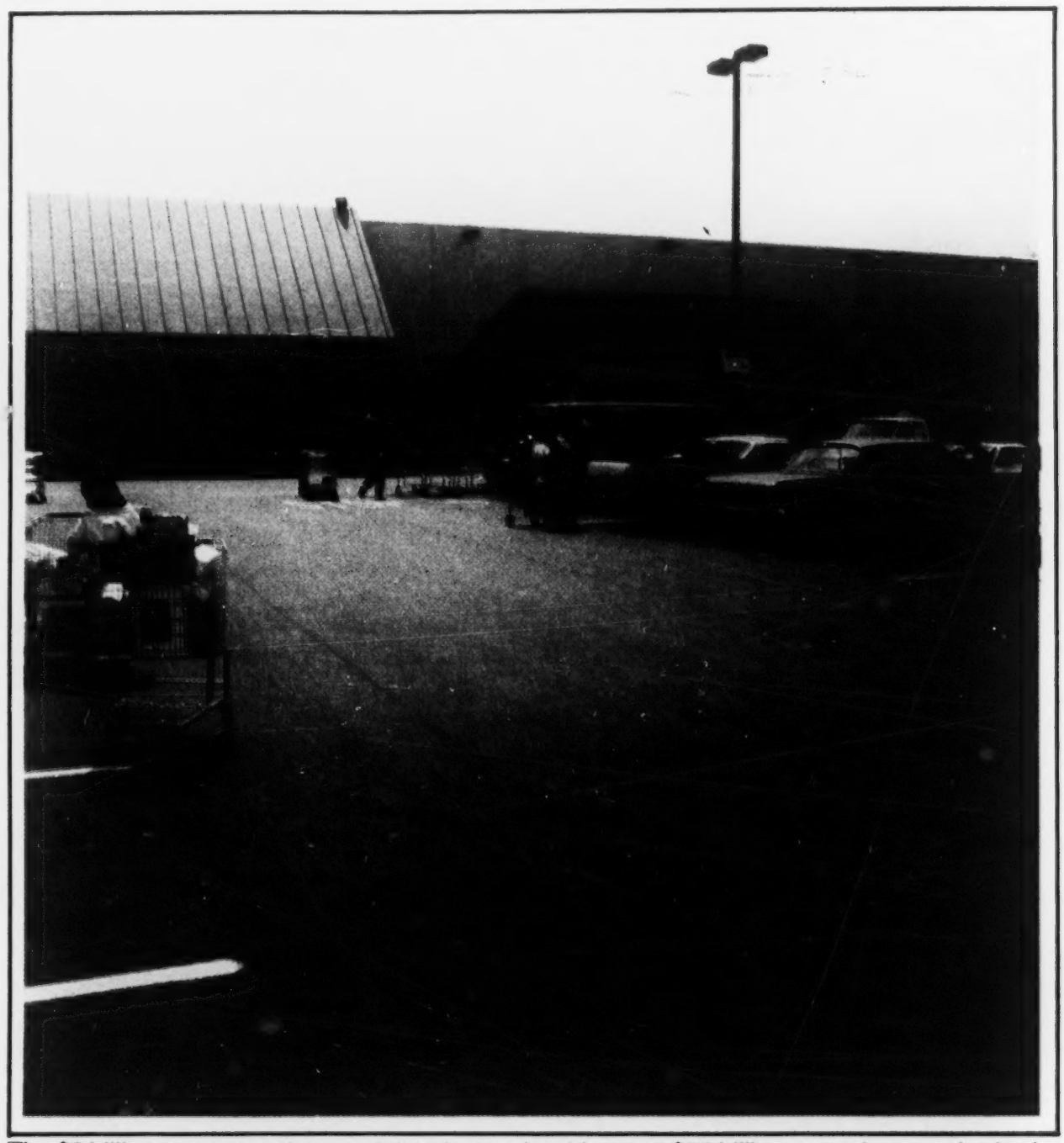
"Food is an opportunity area for us," says Makro's chairman Joseph Nusim, "because it brings the nonfood customer into our stores."

Jeffrey Zisk, President of American Wholesale Clubs in Plano, Tex., says food is very important to the Memberhip Club concept.

"It keeps customers coming through your door," Zisk says, "and it keeps your inventory turning."

Some Membership Club retailers claim they can turn groceries as many as 30 times a year and Zisk credits groceries for the fact that his customers shop his stores about every 14 days.

Groceries, he said, is a key strategy for generating repeat business.



The $8 billion a year warehouse club industry should soar to $20 billion a year in annual sales by 1990, industry sources estimate.

Grocery Sales Trends in Membership Warehouse Club Stores
(retail sales millions)

Category segment	1982	1985	1986	1987 est
Packaged Groceries (excludes snacks)	$122	$1.526	$2.802	$4.203
Packaged Alcohol	13	174	327	490
Paper Goods	11	153	288	444
Soaps/Household cleaners	12	157	296	449
Pet Foods	6	81	154	239
Total Sales	164	2.090	3.867	5.825

Source: Malcolm Knapp Associates, New York

Non Food Chains Court Traffic With Household Products

Drug/Discount stores give more space & more features to high tonnage household cleaners & related products

Retail sales in the household cleaning category increased approximately 7% in 1986 to a $9.9 billion dollar category, according to the Charles H. Kline Company in Fairfield, N.J.

Food stores, which account for approximately 70% to 75% of total household cleaning product sales, generated moderate sales growth of about 3% to 4%.

The more dramatic growth in the category came from increased promotional and everyday sales in nonfood outlets such as drug stores, discount stores and membership wholesale club outlets.

Many nonfood retailers report that their sales of household cleaners were up between 10% and 12% in 1986, and some chains like Wal-Mart, Walgreen's, Eckerd, Gold Circle, etc., generated even stronger growth, according to buyers and store managers.

Household products: "viable growth opportunity"

Dave Peterson, Exec VP of Merchandising for Perry Drug stores, describes the household chemicals and laundry detergent category as a "very viable growth category with the potential to do even better for us."

Like many drug chains, Perry is considering giving the category expanded space.

"We often use household chemicals as a draw or a traffic builder," says Peterson, "and it's always easier to promote from within an expanded basic department.

"We often promote chemicals and detergents in our flyers," says People's VP of Advertising Joe Pollard. "They're a big drawing item and they're reasonably profitable."

Discount Stores pioneered the household products segment

Most drug retailers will admit that they are following in the footsteps of the mass merchandise chains like Wal-Mart, K mart, Target and Gold Circle, etc., who began increasing their promotional and everyday emphasis on chemicals and household products in the late 70's and early 80's.

Drug and discount stores are promoting and displaying household products much more frequently today. Buyers say their customers consider such promotions time and money savers.

Growth in Household Cleaner Sales

Years	Dollar Volume (Billions)	% change
1985	$9.3	5.8%
1986	$9.9	6.8

Source: Charles H. Kline & Co.

"They were doing it way before we were," says one drug chain executive for a company based in the Midwest. "At certain times of the year, you can look at a K mart flyer or a Gold Circle flyer and see a whole page devoted to household grocery products, especially the chemicals, detergents, paper products, plastic and aluminum wraps and food storage and trash bags.

"Part of the draw is in the brand names. Consumers will recognize a name like Tide or Bounty or Glad and if you give them a good discount on the everyday price, you can certainly build great traffic.

"But the other important thing

Drug and discount stores are expanding their household product sections. Their main goal: to give consumers more "value."

Plastic Wraps: "An area of opportunity for nonfood chains"

Wal-Mart is currently expanding space for its plastic wraps and food storage bag category.

A manager for the country's second highest volume mass merchandise chain said the category is being expanded because "plastic wraps and food storage bags are selling well for us. But we don't give the category as much space as food stores do, so we think there may be an opportunity here for even greater sales growth."

The manager said the category was currently growing at an estimated rate of about 25% a year and was yielding everyday margins of about 35%, and promotional margins of about 20%.

According to a source for Glad, which is the No. 1 brand in plastic wraps and trash bags, discount stores like Wal-Mart currently generate about 20% of all plastic wrap and storage bag sales while drug stores generate about 10%.

Sales in drug and discount stores, however, are growing twice as fast as sales in food stores, up an estimated 9% in both outlets in 1986 compared to about a 4% increase in food stores.

According to Glad's estimates, the total category increased about 6% in 1986 to around $1.8 billion. Sales in food stores alone were about $1.3 billion in 1986, according to Sami Market Research in New York.

A recent study done by Glad Products also shows that drug and discount stores on average give the category less proportionate space than food stores do.

A spokesman for Glad said the typical food store gives about 40% of its overall plastic wrap and storage bag space to sandwich wraps and food storage bags while drug stores frequently give the category just 29% of their overall space, and discount stores give it 25% of total space.

Both Glad executives and drug and discount store retailers say there is an opportunity for nonfood retailers to increase their sales per square foot in this category if they follow Wal-Mart's lead and expand footage.

Sources for K mart, Eckerd, Gold Circle and several other major chains say they are currently "evaluating" the possible returns on just such an expanded allocation.

The Top Five Highest Dollar Volume Non-Edible Grocery Categories

Product Category	Estimated Dollar Volume in Food Stores (billions)
Heavy Duty Detergents	$3.1
Toilet Tissues	$2.1
Disposable Diapers	$2.0
Paper Towels	$1.4
Plastic Wraps/ Food Storage Bags	$1.3

Source: Manufacturer estimates based on Sami Market Research for 1986

about these nonedible grocery categories is that they're profitable, even on promotion. Even when I'm promoting a brand like Tide or Glad, I'm usually able to take a 20% or better gross margin.

"If I were promoting toothpaste or shampoo, in contrast, I'd be going out close to my cost."

Increased manufacturer competition a boon to shoppers & retailers

A K mart manager in Detroit also points out that in the last few years, the manufacturers of household products, in general, have gotten much more competitive with each other, and that as a result there has been a lot of couponing and rebating in the household products category.

"We can feature a Dracket bowl cleaner or a box of Tide or a Pledge furniture polish at close to full everyday retail and still get the consumer to come in because most of these manufacturers are mailing out rebates and coupons offering significant savings," she says.

This particular K mart manager also noted that "Many of the people who make the mops and brooms and other handle products are offering coupons and rebates with $2 and $3 or more off their regular everyday price.

"This, of course, makes that category very attractive to us."

Space allocations up about 25% in the last two years

In the past two years, retailers and manufacturers say they estimate that everyday space for household products has increased about 25% on average in drug and discount stores while promotional activity has more than doubled.

Top 10 Brands in Food Stores

1.	Tide
2.	Pampers
3.	Scott
4.	Huggies
5.	Charmin
6.	Glad
7.	Luv's
8.	Northern
9.	G.E. Lightbulbs
10.	Bounty

Source: Manufacturer estimates based on 1986 Sami Market Research

A chain like Gold Circle, for example, features an assortment of household products every week in their flyers while chains like Wal-Mart, K mart, Walgreen's, Eckerd etc., almost always have at least two or three household products including cleaners in their weekly ads.

Buyers say the increased promotional emphasis is very logical considering the dollar size of most household product categories.

Sami's Top Five Highest Dollar Volume Categories

According to SAMI's listing of the five top volume categories in food stores in 1986, household products are in four of the top spots. Heavy Duty detergents, for example, generated some $3.1 billion in food store sales in 1986, Sami says, while toilet tissues racked up some $2.1 billion in sales.

Paper towels did another $1.4 billion while plastic wraps and bags generated about $1.3 billion. Taken together, these four household product categories generated about $7.9 billion in total food store dollar sales in 1986, while disposable diapers, the third highest dollar volume category, tossed in another $2 billion a year in sales.

Drug and discount store retailers say that giving more visibility to these tonnage categories helps create a "one stop shopping" environment in their stores.

Retailers say they also don't have to go very wide in their assortment of brands in these categories to draw traffic or generate impulse sales. All they need to do is stock the No. 1 or 2 brands in the segment, and shoppers buy "the brand and the price we feature it at."

Why Cleanser Sales are Growing

According to the Charles H. Kline Company, a marketing analysis and research company based in Fairfield, N.J., the household cleansing products category will continue to show moderate, steady growth throughout 1987.

Kline analysts say retailers will continue to see most of the category's growth coming from the soap and detergent segment of cleaners which currently account for about 51% of all household cleaner sales.

According to Kline analyst Elizabeth Donovan, there are several factors fueling the growth of cleansers including the following.

1. Major acquisitions and divestitures

Donovan says the trend today is toward an industry consolidation with the result that the major cleanser companies are aggressively competing against each other for market share.

2. More brand extensions

Donovan says that manufacturers are more likely today to try to retain their competitive edge by extending their strongest brands rather than by introducing new, untested brands.

P & G, Donovan points out, broke a long standing precedent recently by introducing a "flurry" of extensions to Tide in 1985 and 1986. P & G also has new liquid detergents which use the Cheer and Bold brand names.

3. Heightened consumer demand for convenience.

Donovan says the increasing demand for convenient household product items will "continue to encourage product and packaging innovations."

Some of the more recent examples of this trend are P & G's Multi Action Tide sheets, disposable foam sheets containing premeasured amounts of laundry detergent, all fabric bleach and fabric softeners, and Kiwi's Bloo Duck, a liquid toilet bowl cleaner that comes in a package with a spout shaped like a duck's bill. The spout allows the user to apply the cleaner more directly and more neatly.

4. Liquids will remain fastest growing segment in soaps and detergents

Because of their convenience, Donovan thinks that liquids will continue to be the strongest growing segment in detergents. Liquids, she says, accounted for 30% of all detergent sales in 1986, up from 25% in 1985.

5. Changing consumer demographics and buying habits

Donovan says cleanser manufacturers are "increasingly responding to changes in their consumer base through new approaches in promotion and distribution."

She says Mennen's Baby Magic laundry detergent, which is positioned as a cleaner for baby clothes, is a good example of this trend and so are the new light starches which have been developed for and positioned toward younger, working consumers.

Donovan says retailers can expect to see more such product positions in the future, especially toward such demographic groups as single people, older people, teenagers and men, all of whom, she points out, "account for a growing proportion of shopping dollars."

C.E. Lesson: Basic pharmaceutical calculations—p. IP25

Trends Competition fier in greeting cards

...age: ...place ...wd—p.4

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DRUG STORE NEWS

Vol. 9/No. 15 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. July 20, 1987

Fred Meyer's opening promotion offered sharply discounted H&BA prices and free canned ham with each new or transferred script.

Fred Meyer hams up new format unveiling

By Pamela Krein

MARYSVILLE, Wash. — Pharmacies are "part of what Fred Meyer is all about," according to the retailer's president, Cyril Green, and the pharmacy played its part here recently in helping to draw customers to the latest Fred Meyer store opening.

During the grand opening celebration for its 94th store, Fred Meyer offered pharmacy customers a free canned ham with each new or transferred prescription, and promotional prices on H&BA products.

New store format

The Marysville location—approximately 30 miles north of Seattle—is a new overall store format for the Portland, Ore.-based retailer. In previous Fred Meyer, departments

See **Meyer,** *page 65*

Malone & Hyde adds pharmacy to new Megamarket prototype

NASHVILLE — Malone & Hyde is adding pharmacy to the mix of an expanded Megamarket store format slated for unveiling here later this year.

The new 80,000 square foot-plus, warehouse-style food and drug stores will also have two and one-half to three times the H&BA selection of the three Megamarkets that Malone & Hyde now operates in Memphis, said John Beauchamp, director of retail development for food companies and drug stores.

Beauchamp said prescriptions will be priced to be the market's lowest, with grocery

See **Megamarket,** *page 65*

LATE NEWS

- NEW CUMBERLAND, Pa. — Rite Aid chairman Alex Grass told stockholders at the corporation's annual meeting here that 544 of 574 drug stores acquired since February will contribute $585 million sales and help the corporation reach $2.5 billion volume in the fiscal year.

- DEERFIELD, Ill. — Walgreen Co. reported second-quarter earnings of $25.3 million, compared with $24 million in last year's second quarter, on sales of $1.07 billion, against $913.9 million in last year's period. Six-month earnings were $77.3 million, against $76.9 million last year, on sales of $3.2 billion.

- BEDFORD HEIGHTS, Ohio — Fisher Foods, the wholesaler, will end its retail operations by closing 61 Fazio's and Carl's supermarkets, and two Jax deep discount drug stores, after union members rejected a contract clause pertaining to seniority rights.

Dart debt swap would give chain a financial breather

By Al Heller

LANDOVER, Md. — Dart Drug Stores can take a deep breath now.

The 81-store chain got SEC approval on July 6 to exchange its $160 million worth of outstanding debentures for a new debt and equity package, following its second restructure of the swap in two months.

"Now we can concentrate on running the business," Dart chairman Stephen Hansbrough told *Drug Store News*, sounding relieved to have survived choppy financial waters the past several months.

Danger signals

Indeed, Dart had warned in an April 24 prospectus that if it couldn't refinance its burdensome leveraged buyout debt, it might have needed to liquidate or reorganize under Chapter 11. The chain, in fact, did not pay a $10.16 million interest payment due on the old debentures June 1.

To Dart, the debt swap is a lifeline that will cut interest expenses over the next 10 months to $6.3 million (if 85% of bonds are exchanged) from $22.3 million in the 10 months ended May 31.

The exchange offer will also slash Dart's long-term debt level from $193 million to $125 million. If Equitable Life Assurance Society, which is a 13% note holder, also exchanges, long-term debt will fall to $104 million.

The dealer-manager of the exchange offer is Rothschild, Inc.

Offer commences

Dart immediately commenced its offer to exchange 12.7% senior debentures due in 2001 for a package of increasing rate debentures due in 1992 and common and preferred shares. The offer is expected to end July 31, the last day of its current fiscal year, and would enable Dart to enter the new fiscal period with a far stronger balance sheet.

Moreover, if the deal is consummated, Dart will become the second drug chain of those

See **Dart,** *page 65*

New Marketplace draws 1,000+

NACDS' booth show a winner

Fay's Dale L'Amoureux (c) and Deborah Hogan (l) were among chain buyers finding booth format conducive to supplier meetings.

MINNEAPOLIS — The National Association of Chain Drug Stores unveiled its new Marketplace Conference to a sold-out audience of retailers and manufacturers meeting at the Hyatt Regency Hotel here.

The new show, which combined NACDS's cosmetics and merchandising conferences in a new exhibit booth format, attracted nearly 200 executives, merchandisers and buyers from more than 60 chains. The show also drew some 650 attendees from associate member companies, who had reserved all 200 available booths several months before the opening of the show.

Format gets high marks

Retailers and suppliers gave high marks to the new booth format, citing the ease of setting up meetings as well as the excitement of an exhibit show. Some retailers suggested that a show date somewhat

See **NACDS,** *page 65*

Repackagers claim chains are eying their MD market

NEW YORK — The already controversial issue of physician dispensing of prescription drugs may get even hotter, if drug chains consider moving into the business of repackaging drugs for doctors.

Thus far, the nation's drug chains publicly deny any interest in drug repackaging, beyond what they already do for their own retail and nursing home pharmacies. But reports that some of the nation's biggest chains may be on the verge of repackaging pharmaceuticals for use by doctors have surfaced over the past several months within the repackaging business itself, roiling the waters of an already turbulent and controversial issue.

According to executives of several companies that repackage drugs for doctors to dispense, a number of major drug chains are considering a buyout of some of the biggest repackaging houses, whose growing business with doctors who dispense their own drugs has the retail pharmacy industry worried. If so, it could put those drug chains in the uncomfortable position of publicly decrying the dispensing of

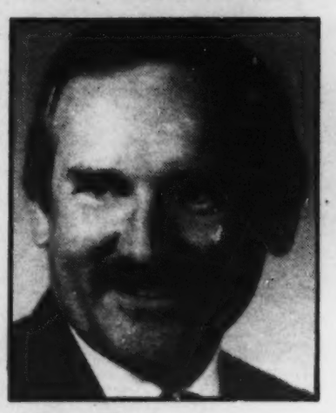
See **Repackagers,** *page 65*

Inside this issue: Inside Pharmacy

- Exclusive report on top 100 OTC products
- Drug stores caught in HMO bidding buzzsaw

NEWS IN BRIEF

Fay's Kogut named to pharmacy board



LIVERPOOL, N.Y. — John Kogut, senior vp-operations at Fay's Drug Co., will be an adviser to the New York Board of Regents and to the Commissioner of Education in his new appointment to the state Board of Pharmacy. The term runs from July 1, 1987 to June 30, 1992.

The 19-member pharmacy board, a branch of the Board of Regents, advises on issues such as pharmacy licensing exams and control of manufacturing and distributing drugs in New York.

Kogut received his bachelor of science degree in pharmacy from the State University of New York at Buffalo, and a master's degree in business administration from Syracuse University. He joined Fay's as a staff pharmacist in 1969.

Survey rates Bergen sales force tops

ORANGE, Calif. — In such areas as reputation among customers, skill in opening new accounts and quality of sales training, Bergen Brunswig is hard to beat, according to results of a survey of sales executives by *Sales and Marketing Management* magazine.

The company's sales force was voted best in the wholesale distribution field by 1,000 sales executives in 13 industries, who were asked to grade their 10 largest competitors. Bergen got the highest average score.

Bergen stresses service at training sessions and requires all top management to make 100 sales calls a year, said Leo Granucci, Bergen's group vp-sales.

Chappelear to run '88 NACDS meeting

ALEXANDRIA, Va. — Harold E. Chappelear, corporate vp and general manager of the domestic pharmaceutical marketing division of the Upjohn Co., was named general chairman of the 1988 NACDS annual meeting by NACDS chairman Jack Robinson. Chappelear will lead the business program team in developing the 1988 general session agenda.

A graduate of the Medical University of the South Carolina School of Pharmacy, Chappelear joined Upjohn as a salesman in 1962 after a brief period in private practice as a pharmacist.

May's doubles space with new Tulsa HQ

TULSA, Okla. — May's Drug Stores is doubling its office space by moving into new corporate headquarters here, measured at 9,996 square feet.

President Gerald Heller said the 26-store chain's recent growth, which included the takeover earlier this year of Eckerd's Tulsa stores, created a need for more administrative space.

"In addition to moving our entire executive management team to the Tulsa headquarters, we've also beefed up our operations staff and plan to add to our buying staff soon," said Heller.

The headquarters move—to Square One Center—will also allow the 50-year-old chain to expand dramatically departments such as personnel, computer, filing, accounts payable and training, Heller said.

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Vol. 9, No. 15 July 20, 1987

Purchases of Bellamy, King help Owens & Minor build retail sector

RICHMOND, Va. — Owens & Minor Inc. is strengthening one Mid-Atlantic market and entering another with its purchases of Bellamy Drug of North Carolina and South Carolina's King Drug Co.

The acquisitions support the drug wholesaler's goal of building its drug store business, which has recently lost momentum to its hospital supply growth. The sale—set for completion July 31—will add 120 independent accounts, for a 620 total.

"We're trying to find some way to keep the independent drug store alive as part of our business," W. Frank Fife, Owens & Minor's executive vp and coo, told *Drug Store News*.

"[Otherwise] They're going to die over our dead bodies," Fife added.

Buy builds share

The buy of the Wilmington, N.C-based Bellamy Drug Co. allows the publicly traded Owens & Minor to build market share in eastern North Carolina, where it already has a distribution center in Wilson.

The drug, H&BA and medical/surgical supplier also enters South Carolina by buying the Florence, S.C- based King Drug. Bellamy and King are owned by the Lyndale Co., in which William Elmore, Bellamy's chairman, has the controlling interest.

"This transaction is in line with our strategy of expanding our drug distribution capabilities in the Sunbelt. Present management is excellent and will stay in place," said G. Gilmer Minor III, Owens & Minor's president and ceo.

Owens & Minor operates wholesale drug distribution centers in Richmond; Norfolk, Va.; and Miami and Orlando, Fla., as well as in Wilson, and 17 medical surgical DCs in Mid-Atlantic, Southeast, South Central and Southwest states.

Combined fiscal '87 sales

Bellamy and King had combined fiscal 1987 sales of $22.5 million. Owens & Minor posted sales of $457 million in fiscal 1986 and is aiming for $600 million sales in fiscal 1987, ending Dec. 31, fueled mostly by a growing hospital supply business, said Fife.

The medical supply sector has been helped by a year-old contract as exclusive supplier of some medical and surgical supplies to Voluntary Hospitals of America in the wholesaler's markets. The contract added $80 million to 1986 sales, Fife said.

Hospital supply sales grew 46% this June, compared with the same month last year, as total sales grew 33% in the month from the previous year, hitting $49.9 million, Fife said.

To stabilize and build drug store sales—which accounted for 65% of total 1986 sales—the Richmond distributor has launched a new planogram effort. The goal is to build stores' front ends, which are sometimes neglected by overworked pharmacist-owners, Fife observed.

Front-of-store merchandise, which used to account for 60% of business with the stores, has shrunk to 15%, he said.

Fife said the program is open to all customers, even if they aren't among the 75 who belong to the wholesaler's Cardinal Drug voluntary program.

It sets up about 1,000 high-impulse, fast-turning H&BA sku's in one gondola run, leading to pharmacy.

Positioning crucial

"He [the owner] may have these products, but they aren't positioned right, or he isn't watching the movement closely enough," said Fife, who said the planogram is now in five stores as a test.

The company will continue to build operational economies by combining drug and medical supply warehouse operations where feasible. This month, it is closing its Miami drug warehouse and merging those operations with a medical surgical supply distribution in a Fort Lauderdale warehouse. A similar merger was made recently in Orlando, Fife said.

Ike's tests pharmacy and optical dept.

Chain plans to include pharmacies in all future stores

NASHVILLE — Deep discounter Ike's, operated by Malone & Hyde, is testing a pharmacy and an optical department in its third store, which opened here in late May.

Malone & Hyde, which has two other Ike's in its home market of Memphis, is already planning to install a pharmacy in at least one of the existing Memphis stores and will also put it in the other if the lease can be modified to accommodate a pharmacy.

Based on the success of this first pharmacy, which sources say did over 250 scripts a day during Grand Opening week, Malone & Hyde plans to put pharmacies in all future Ike's.

Currently, a third Ike's is scheduled to open in Memphis this September. Management is also looking for a fourth site there, as well as at least one other site in Nashville.

Optical sales in this new store also "look good," management says, and Ike's will also put another optical department in that third Memphis store, which will open in September.

During Nashville's Grand Opening week, the optical department, located in a front corner of the store, generated approximately 40 scripts a day. Just three weeks after opening, the department was averaging about 30 scripts a day. Sources said the break-even point for the department is about 12 to 14 scripts a day.

Bob Billings, president of the Malone & Hyde Retail Drug Store division, believes sales in the optical section can grow at a fairly steady pace, especially as word gets out that optical prescriptions can be filled at Ike's for as low as $19.95 and that Ike's has a selection of approximately 1,500 different frames.

Nine stores in Ike's sister division, Super D Drugs, currently also sport optical departments.

Decision pending

Billings said the company hasn't decided yet what it will do with its Super D optical departments if the Ike's sections are a big success. Billings did say, however, that if the optical department continues to perform as well as it is doing now in Nashville, it will certainly go in as an everyday department in all future Ike's, and it may also be added to the two original Memphis stores.

Both the optical and pharmacy departments can be expected to increase the average sale in Ike's and consequently generate higher than average annual store sales.

Billings says that potentially, the pharmacy department should be able to generate between 500 and 700 scripts a day, while optical might be able to generate annual sales of between $300,000 and $350,000 a year. The average check in optical, Billings thinks, could eventually turn out to be about $35.

Ike's new optical department easily passed the break-even point with approximately 30 scripts a day three weeks after opening.

TRENDS

Fierce competition in greeting cards spurs sales

Drug chains are receiving more urgent messages from the greeting card industry.

Aggressive marketing by the three big greeting card companies—Hallmark (and Ambassador), American Greetings and Gibson—is causing chains to look harder at card, gift wrap and stationery programs, which have already been reassessed due to vendor emphasis on direct product profitability.

The result: increased drug store card sales during a relatively flat market, as chains experiment anew with locations and adjacencies and use new vendor programs to promote cards and target specific audiences.

Promotions developed

Chains such as Crown Drugs and Happy Harry's have posted double-digit sales growth this year. Thrifty, Walgreen and Eckerd are among chains that have used or are developing promotions in American Greetings' 1½-year-old "We Drive Your Business" program. Eckerd is injecting Ambassador's "My Thoughts Exactly" alternative card line into selected markets that Ambassador has identified through demographic surveys.

Gibson, in chains such as Pay Less NW, Peoples and Thrift, is planning some major new product launches later this year, which will include a new alternative card line and new marketing programs, according to Duane Tabor, Gibson's vp-marketing and creative.

A fierce battle for market share by the big three has led to the best terms in recent memory, buyers said, as well as a fair amount of account turnover.

"Before, everybody just sat back and accepted what the greeting card industry had to offer; those days are gone," said Al Deibler, Revco's divisional merchandise manager.

Revco picks American Greetings

Revco's card program, revised last year, took another turn in May, when the 2,000-store chain moved 100% to American Greetings (dropping Gibson).

Deibler said that the card program is now "in a holding pattern" with the conversion process under way. He said while the store will likely continue to favor a front-of-store site for cards, adjacent to cosmetics, the linear footage—which Revco in selected stores had doubled to 84 feet—will be reassessed.

One change is virtual elimination of stock under the counter by using fixtures with false doors to keep all inventory out and turning. "The inventory that can get tied up in those drawers is astronomical. And it is very difficult to police," Deibler said.

Retail analysts say vendors are fighting for market share points, since the two key factors that have supported card growth have dried up. They were inflation-supported price increases and selling into new major retail sectors, which has been completed.

"At best, unit sales were up nominally (from 1985 to 1986)," said E. Gray Glass III, first vice president, Prudential-Bache Securities.

Vendors' profits hurt

Glass said while vendors received decent sales growth—American Greetings, for example, gained about 10% in its 1987 fiscal year—their profits were hurt in part by the costs of refixturing, which stemmed from the high account turnover. American Greetings profits dropped from $74 million in 1986 to $63 million in 1987, Glass said.

This kind of pressure is changing the way the companies do business.

Steve Bishop, vp at the Lafayette, Calif.-based Bill's Drug, said Hallmark for the first time is writing credit terms on unsold merchandise. Starting last Halloween, they were giving the chain full credit on leftover seasonal stock toward rebilling the next year. That has allowed Bill's to cut inventory expenses. And Hallmark is selling more cards to the chain, since Bill's had tended to underbuy to avoid carryovers.

With stores split between Hallmark and Ambassador, Bill's favors a front-of-store location for cross-merchandising with gifts and appliances.

Even though Bill's carries Hallmark's Shoebox line, it features a stable of alternative vendors, whose lines have sold well: Renaissance, Recycled Paper, Sun Rise, California Dreamers and Blue Mountain Art, Bishop said.

Fast turners emphasized

Crown Drug in North Carolina promotes its 128-foot Hallmark departments in weekly newspaper ads, which might also emphasize the complete selection of party supplies during non-holiday periods. The chain gained 16% sales growth in 1986 by policing carefully to emphasize the fastest-turning merchandise, according to president Ray Gentry.

Delaware-based Happy Harry's posted a 20% sales gain in 1986 from its American Greetings card, wrap and party department, helped by quarterly promotions in which the chain sells all American Greetings items at 40% off, according to Pat Smith, assistant vp.

Happy Harry's puts its department in a rear-of-store alcove, which allows it to use wall space for pegging paper and bow combo wraps and stationery above cards, and thus saves front-of-store gondola space. Smith feels the rear location doesn't inhibit access, because signage is easy to see and the store's layout is open and invites circulation.

Eckerd added 24-27 more linear feet with a third side of cards as part of its Spartan reformat, which put cards at the front of the store, adjacent to cosmetics. It puts seasonal cards on the third side, facing cosmetics. Besides giving them the best exposure, it relieves traffic congestion in the everyday department during holiday periods, allowing better sales of the basic selection.

Eckerd's card game promo

Eckerd increased traffic in a six-week game card promotion with American Greetings in which shoppers filled a card with stickers they received when buying the vendor's products. It has also used Ambassador's program for targeting its "My Thoughts Exactly" alternative card line, putting the cards in markets the vendor identified as most promising based on demographics.

Snyder Drugs, with American, Ambassador and Hallmark, is reviewing its promotional options. "We have yet to decide how we are going to promote," said buyer Ron Riviere.

Carrying Ambassador's "My Thoughts Exactly" in all its stores, Snyder is also retaining American Greetings' "In Touch" line, which some buyers said customers resisted. Riviere said he expects better success since the postcard-type card has been revised into a folded style.

The recently expanded American Greetings selection in this Burien, Wash., Pay 'n Save unit is on seven sides of 24-foot gondolas at the center of the store.

Profile of the alternative card consumer

- *He/she is most likely to be single*
- *A renter*
- *Income above $35,000*
- *White collar*
- *A resident of the Northeast, Mid-Atlantic or Midwest.*
- *Under 50 years old*
- *The possessor of some college education*

Source: Data compiled by Ambassador Cards for marketing its "My Thoughts Exactly" alternative card line

Merger creates stronger gift wrap contender

(Share of promotional gift wrap market: $250 million factory sales in 1986)

Company	
Gibson-Cleo	40%-42%
American Greetings Plusmark	17%-20%
Papercraft	14%-16%
	Before acquisition / After acquisition
Artfaire (Fox Valley Corp.)	10%-13% / 15%-22%
CPS Industries	5%-9%
Other	4%-10%

Sources: Kidder, Peabody & Co., and E. Gray Glass III, analyst, Prudential Bache Securities

Writing instrument sales rise 14% to $2.21B

Sales growth in mechanical pencils and ballpoint pens helped carry 1986 writing instrument sales over the $2 billion mark at the retail level, the Writing Instrument Manufacturers' Association reported.

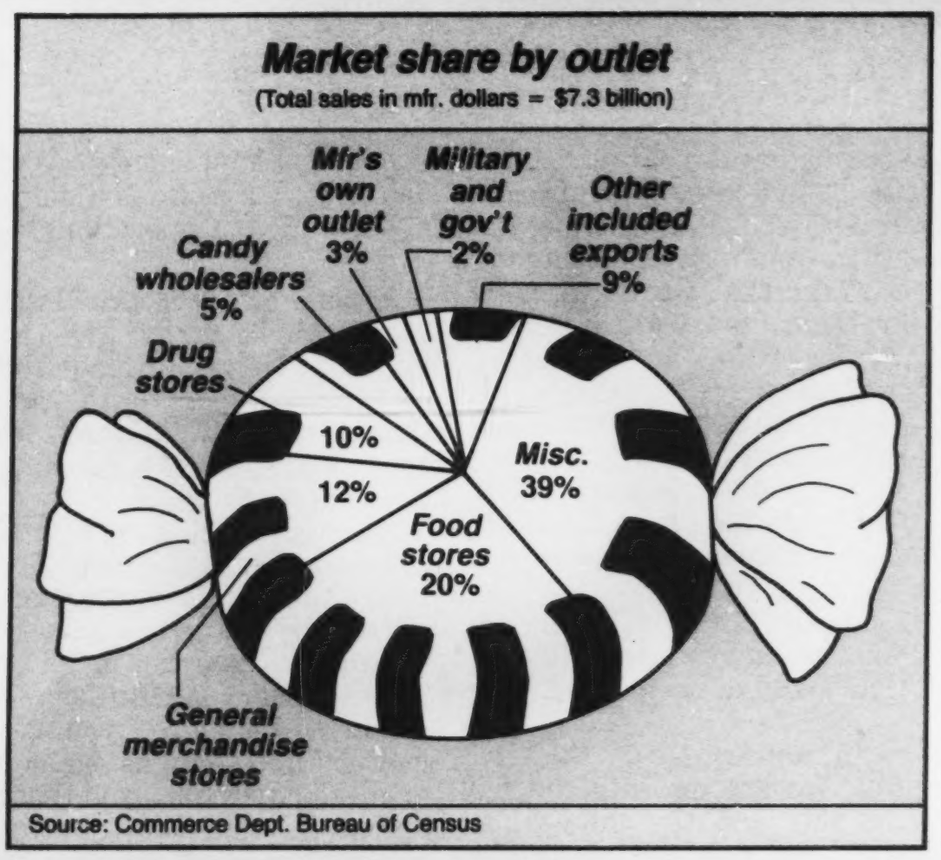
Writing instrument sales at retail grew 14% in 1986, with retail dollars hitting $2.21 billion, compared with $1.94 billion in 1985.

Unit sales were up over 10% to 3.88 billion, compared with 3.5 billion, the association said.

The leading gainers were markers and highlighters, with thick and thin highlighters showing an 82% growth at the wholesale level. Sales at the manufacturers' level were $31.7 million, compared with $17.5 million. Markers grew 39% to $74.2 million from $53.5 million.

Mechanical pencil sales at wholesale increased by more than 30%, with the largest gain in the clutch action models. The category's sales hit $110 million, from $70.9 million.

Ballpoint pens, the largest category, posted a strong sales showing with a 7% gain.


Market share by outlet
(Total sales in mfr. dollars = $7.3 billion)
Mfr's own outlet 3%
Military and gov't 2%
Other included exports 9%
Candy wholesalers 5%
Drug stores 10%
Misc. 39%
Food stores 20%
General merchandise stores 12%
Source: Commerce Dept. Bureau of Census

Candy to make a comeback as chains return to their anchor categories

Candy manufacturers are joyous over the chain drug industry's return to basics. They believe that as retailers begin to turn back to their roots, candy will regain its position as a premier drug store item.

"We feel the industry has begun to stabilize; many of the acquisitions are behind us now," observes Tom McNulty, vp-marketing for Whitman's Chocolates. "We're going back to the basics, and candy is certainly a key."

Retailers attending a recently held National Association of Chain Drug Stores gathering confirmed the swing back to traditional anchor categories such as candy.

Rely on core categories

"To look ahead, we must actually look back to the drug store of yesterday," reports Alex Grass, chairman of Rite Aid. "The drug store of the future will rely on growth from the core categories which helped build our business, including pharmacy, OTCs and candy, to name a few."

This is all promising news for a category that has been churning out substantial sales gains over the past few years, despite obstacles such as rising prices and America's obsession to be trim.

Sales in chain drug stores rose almost 10% last year to just over $1 billion. The candy department, including bagged, boxed and bar candy plus chewing gum, now accounts for 3.5% of total chain drug volume. Drug outlets ring up almost 10% of overall candy sales.

Americans' craving for candy shows no signs of abating. Consumption hit a new high of 3.23 billion pounds in 1986, according to figures from the National Confectioners Association.

Although bagged candy accounts for the majority—almost 40% of volume—in chain drug stores, boxed candy is exhibiting fastest growth. Some buyers and vendors attribute this to a move toward higher-ticket, boxed candy ensembles.

"We see a strong gift-giving trend and we look for boxed chocolates to be up slightly in sales," explained McNulty.

Customer perferences count

He adds that Whitman's has been listening harder to its customer to design candy assortments that are in tune with customer preferences. "We've improved the selection to be what the customer wants, and we've upgraded the quality of the chocolate in our Favorite Line and Golden Selections."

Sources at Peoples, Genovese and Eckerd agree consumers are willing to pay more for premium candies, such as Fannie May, Andes and Whitman's. Domestic suppliers say they are bracing for a continued assault from foreign firms with "fancy European" names, which consumers often link with quality.

Some firms are taking steps to head these brands off at the pass. Whitman's has new packaging which conveys a more quality image, for example.

Not convinced

Despite the acceptance of more expensive assortments and so-called designer candies, some buyers are not convinced consumers are willing to spend more. "We have not seen a big trend toward upgrading," notes Charles Monk at Harco Drug. Another Southern-based buyer agrees that if it is a trend, it hasn't spread to his stores yet.

Instead, value has become the buzzword for many chains. This means aggressively promoting the larger candy bars or working out deals with vendors to get more items per bag. Walgreens, for example, puts together special packages with one extra lollipop or candy cane for the same price.

"The larger bars or bigger bags help justify the price increases," chuckled one buyer.

(Continued on page 18)

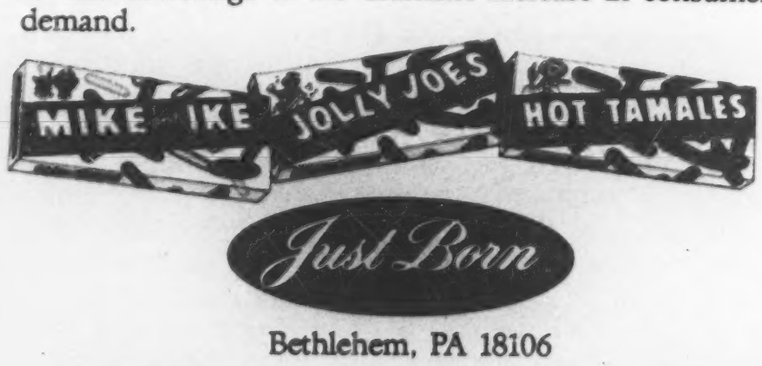
Just Born's Biggest Sampling Promotion Will Build Your Profits!

Over 4 million consumers will receive free samples of Mike & Ike® candy.

For three months beginning June 1, free SNACK PACK boxes of Mike & Ike® will be on store shelves across the country—inside both size packages of General Mills Cocoa Puffs® Cereal. On the back of each cereal package, consumers will be told that they can find regular size boxes of fruit-flavored Mike & Ike®, grape Jolly Joes® and cinnamon Hot Tamales® at their favorite store.

Consumers will see advertisements run by Just Born and General Mills announcing this promotion on National Network Television. They will air during Saturday morning children's shows.

Stock up now on all three varieties of Just Born candies to take advantage of the dramatic increase in consumer demand.



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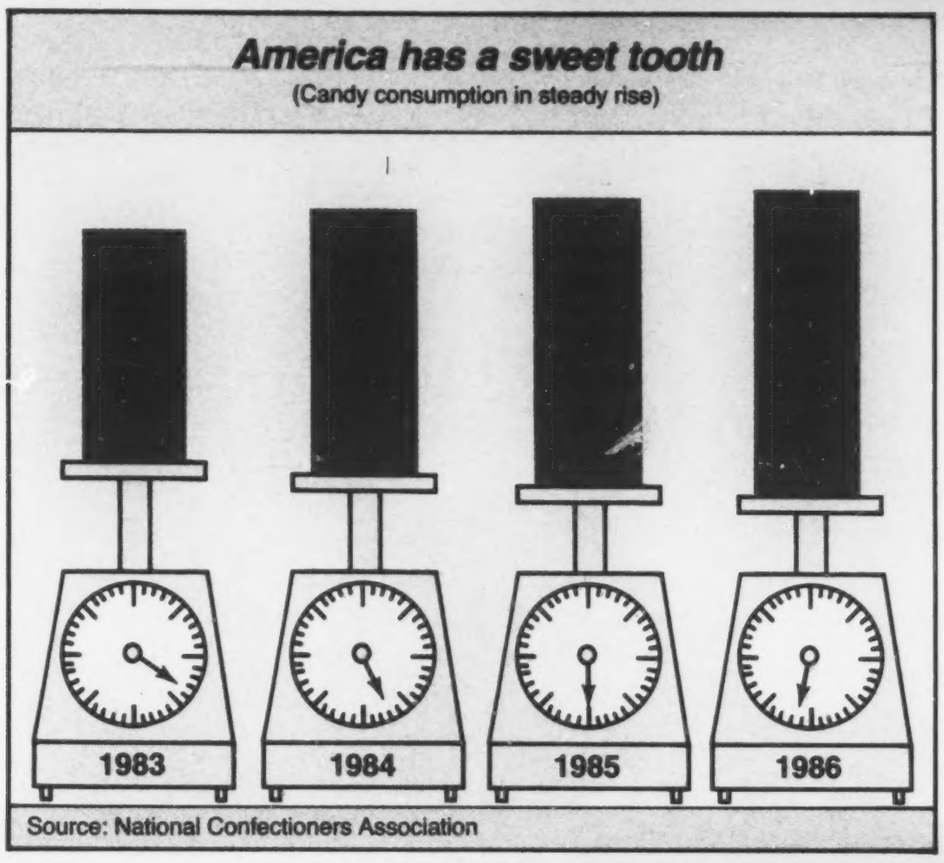


Checkouts ideal for touting candy

Jessica Cetnar, a drug store cashier at Quakerbridge Mall in New Jersey, always knows her register will ring at least 60 cents higher when she sees a parent with a child in tow.

She estimates that three out of every four children who come through her busy checkout snatch a candy bar—with or without the parent's consent. Their favorites? Bubble gum, Snickers, M&M plain and Hershey bars, she says.

Merchandising candy at checkouts is a guaranteed way to boost candy sales by appealing to the impulse urges of children and adults alike. With 75% to 80% of candy purchases (excluding box selections) selected on whim, it is critical that retailers expose the maximum amount of store traffic to these treats.

"We've gotten into a candy checkstand program that has just been fantastic," Bob Page, president of Quick Chek Food Stores in Whitehouse Station, N.J., said at a recent *Drug Store News* panel on front-end merchandising.

Several chains, including CVS, Eckerd, Perry, Happy Harry's and K&B, have pushed aside many categories associated with the checkout area to clear space for candy, now ranked as the most powerful merchandising classification at the checkstand.

Some retailers say they've even turned over precious space once given over to cigarettes (a category where vendors pay display allowances) to candy. "With the trend away from smoking, we see more interest in candy," offers one Chicago area retailer. At the checkout, retailers report a move toward higher-ticket items. The value-added, larger Hershey bars are moving briskly. "And," said Doug Bailey, vp-merchandising for Eckerd at the same panel discussion, "we're moving the premium bars at checkout even better than the in-line locations."

Some chains, however, have not been able to snare away checkout space from magazines, cigarettes, razors and film. Many chains do not have the checkstand format designed to hold candy racks.

A solution at Begley, according to the chain's candy buyer, Mike Tipton, has been to include candy on endcaps and on the new wire-wing fixtures that hang on gondolas. Eckerd, too, uses its four-sided fixtures to house candy.

YES
Our 12-ounce Creme de Menthe poly bags were an overnight success. And no wonder. Bagged candy buyers get more delicious Creme de Menthe wafers for their money. And retailers get more delicious profit from every sale. So what do you do for an encore? Present your another
great-selling flavor—Ting-A-Ling® milk chocolate crunch—now in 2-ounce poly bags. Now your bagged candy customers have a choice. And you have two ways to improve the bottom line of your bottom shelf. For details, see your Andes representative. Or phone (800) 558-2428 toll free.

Comeback

(Continued from page 16)

Many agree, however, that the larger bars with bigger price tags have helped boost average tickets. For example, entry level used to be 30 cents, but is now 40 cents. And it is not unusual to see bars retailing over $1.

Buyers say they are currently eyeing Halloween candy assortments. And, once again, they insist they'll refuse too many specially packed promotions. "We look for items where we can remove the sleeve when the season is over so it can go in-line," offered Mike Tipton, buyer for Begley.

The reason is simple. Retailers can't afford to carry over candy inventories—especially after a few years of lean Halloween sales. Instead, they feature standard candy on special seasonal displays, then return the candy to the gondola after the event.

Although pleased with candy sell-through and turns, which average 7.5 times per year, retailers bemoan the lack of anything truly innovative. There's nothing to match the explosion of Gummi Bears a few years ago, or the Garbage Pail Kids bubble gum.

However, a source at Sathers, a maker of bagged candy under private label names such as Eckerd as well as its own brand, says Gummi Bears are still selling briskly. "So are Gummi Worms and Fish," he noted.

Sathers is also debuting two new candies: Shimerees and Snippits. Shimerees are a hard candy with assorted centers; Snippits have a chewy core.

The introduction of low-calorie candy was met with a warm reception in the trade, but has only produced lackluster sales to consumers. Whitman's Lite received mixed reviews from retailers.

INSIDE PHARMACY

Percent representation of top 100 OTC products by category			
Category	Units	Dollars	Dollar margins
Analgesics	23%	21%	20%
Antacids	9	7	7
Asthma	—	2	2
Contraceptives	2	4	4
Cough/Cold	32	25	27
Diet Aids	4	4	4
Eye/Lens care	14	12	12
Feminine hygiene	2	—	—
First Aid	9	11	10
Laxatives	2	5	5
Stimulants	1	—	—
Vitamins	2	4	4

Source: *Drug Store News* Research

Cough and cold category

NEW YORK — Despite complaints from chain drug retailers of continual erosion in OTC product sales to non-traditional drug store outlets such as supermarkets and discount operations, the over-the-counter drug department remains one of a chain's strongest traffic draws, led by sales of cough and cold products.

According to this year's exclusive *Drug Store News* survey on the top 100 OTC products sold in chain drug stores, consumers purchased more cough and cold products in 1986 than any other product category in the chains' OTC sections.

The survey revealed that cough and cold products accounted for nearly a third (32%) of all the fastest moving products listed among the top 100 OTCs. Cough and cold products also led the way in dollar sales (25% of top 100 OTCs).

The cough/cold section must also have been one of the most popular among retailers, because the survey also showed that cough and cold products returned the highest profit to the retailer.

Much crossover

According to the survey, 27% of all products sold from the top 100 OTC listing were for cough/cold preparations.

Some of the credit for the high grades given to the cough and cold section has to go to consumers' confusion about product usage.

While many medications in this section are clearly indicated for a particular diagnosis, such as congestion, sinus headache, runny nose and allergy, consumers often use several products for their coldlike symptoms in their eagerness for immediate relief.

Some of this confusion might stem from short television commercials that visually show a cold or hay fever sufferer. Consumers, thinking that all symptoms come from the same source, often will run the gamut of products to seek relief, regardless of product indications.

For example, this year's survey showed that Parke Davis' Benadryl capsules 25mg, an antihistamine indicated in the treatment of allergy, was the 12th fastest moving cough and cold product (in a field of 32), and ranked 16th among the top 100 OTCs sold in chain drug stores.

The fastest moving cough and cold product, and ranked fourth among the top 100 OTCs, was Vicks Nyquil 6 oz., a popular nighttime cold medication and a perennial winner in *Drug Store News*' top 100 OTC study.

Another factor leading to a high crossover in the cough and cold category is the retailers' perception of what is actually considered a cough and cold product.

Although each product is clearly labeled for its indicated use, the retailer, realizing that consumers will try a variety of therapies in treating flu- and coldlike symptoms, places all related products in the same section, hoping for complementary sales.

Product recognition

An additional factor responsible for cough and cold products' No. 1 rating among the top 100 OTC products is that a high percentage were once sold by prescription only.

Brand-loyal consumers who once used prescription-only cough and cold products that were switched to OTC status will usually remain loyal because of product recognition.

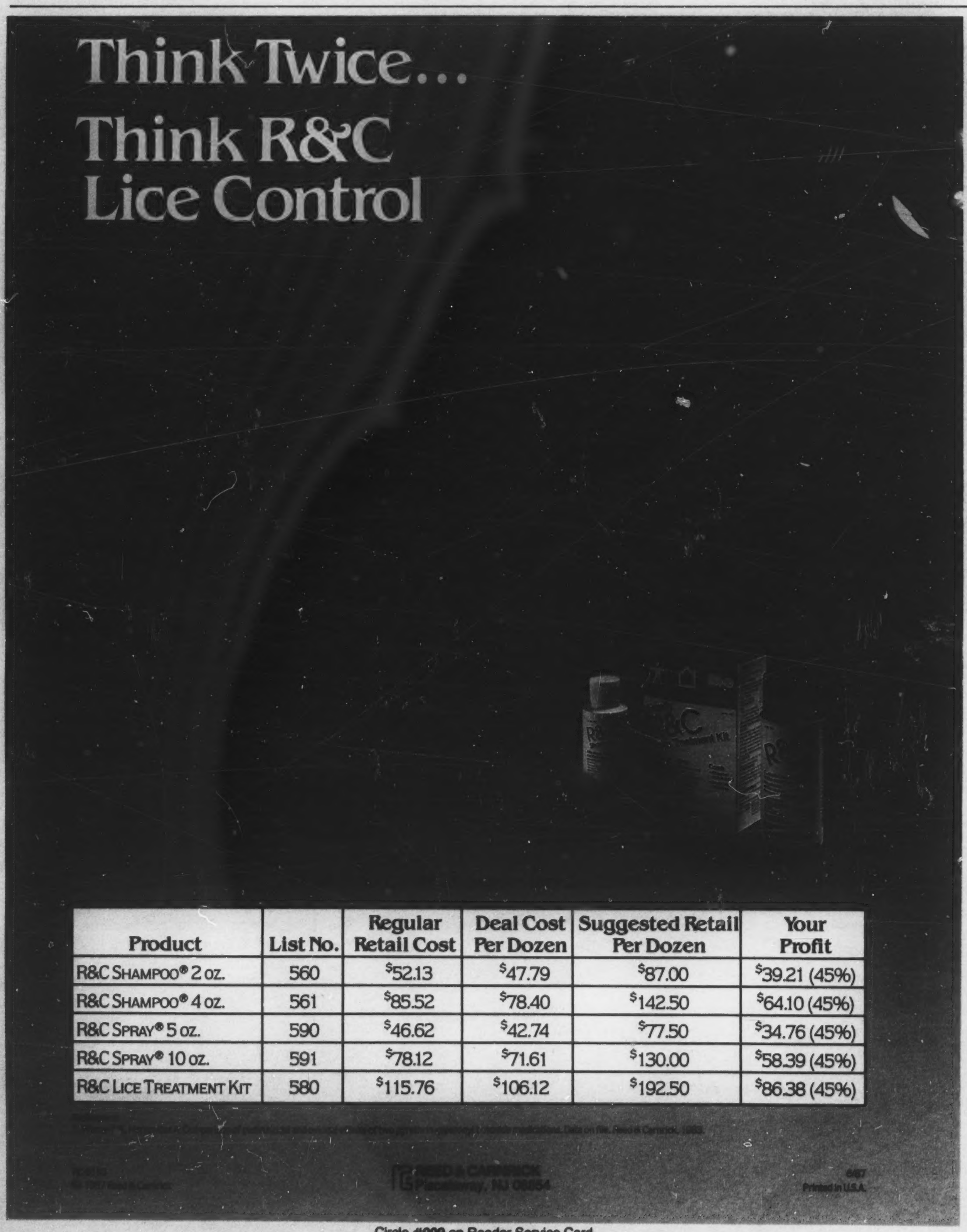
Analgesics in second place

The second hottest product category among the top 100 OTCs, based on unit movement, dollar sales and dollar margins, was analgesics.

According to the study sample, analgesics accounted for 23% of the top 100 OTC products moving through drug chains. Based on dollar sales, analgesics were more competitive with cough and cold products, with analgesics accounting for 21% of the top 100 OTCs (compared with 25% for cough and cold).

Tylenol's strong showing

Once again Tylenol products had a strong showing in the category. In fact, Tylenol Extra Strength caplets 50s



Product	List No.	Regular Retail Cost	Deal Cost Per Dozen	Suggested Retail Per Dozen	Your Profit
R&C Shampoo® 2 oz.	560	$52.13	$47.79	$87.00	$39.21 (45%)
R&C Shampoo® 4 oz.	561	$85.52	$78.40	$142.50	$64.10 (45%)
R&C Spray® 5 oz.	590	$46.62	$42.74	$77.50	$34.76 (45%)
R&C Spray® 10 oz.	591	$78.12	$71.61	$130.00	$58.39 (45%)
R&C Lice Treatment Kit	580	$115.76	$106.12	$192.50	$86.38 (45%)

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Top 100 OTCs survey | INSIDE PHARMACY

leads top 100 over-the-counter product list

grabbed the top position within the category and third in the top 100 OTC listing, based on number of units moved through drug chains. The results were even better for Tylenol Extra Strength caplets 50s based on its dollar volume and dollar margin, where it was also the No. 1 product within the analgesic category and the No. 2 product in the overall top 100 OTC listing.

In total, Tylenol products accounted for just over half of all the analgesic products in the listing.

Other winners in the category included Advil tablets with four sku's (24s, 50s, 100s and 165s), Nuprin tablets 24s and 50s, and Bayer tablets 100s and 50s, whose ranking was pushed along by a new FDA-approved, one-a-day dosage indication to help prevent recurrence of heart attacks.

Eye/lens care third

The eye/lens care category placed a solid third (based on units, dollars and dollar margins) in the listing of Top 100 OTC products, due primarily to a strong showing by contact lens care products.

According to the survey, 14% of the top 100 OTC products based on unit movement were for eye and lens care products.

Grabbing top honors among the lens care products was Bausch & Lomb's Sensitive Eye Saline Solution 12 ounce, which placed first in the category and eighth in the listing of the top 100. Second in the category was another saline product, Unisol 4 Saline Solution Twinpak, which placed 20th among the eye/lens product section (also based on product movement).

Among the 14 products listed in the eye and lens care category, only three were not indicated for use with contact lenses. They were all sku's of Visine brand eye products.

Contraceptives' showing

Among the more notable categories making this year's listing of the Top 100 OTC products was contraceptives. While this category cannot be considered a giant among OTC product categories, it is significant that at least one condom made it to the listing, Trojan Enz Lubricated 12s, placing first in the category (in a field of two) and 45th in the listing of top 100 products.

The study showed that contraceptives were a bit more prominent when the study was looked at based on dollar sales and dollar margins.

Making the listing were Trojan Enz Lubricated 12s (first in category, 36th in top 100), Today Vaginal Sponge 3s (second in category, 86th in top 100), Trojan Naturalamb 12s (third in category, 95th in top 100) and Gynol II Contraceptive Jelly Refill (fourth in category, 97th in top 100).

Battle of antacids

In the ongoing battle for shelf space in antacids, if unit movement is any indication, it appears Mylanta has won.

According to the survey, based on number of units, Mylanta Liquid 12 ounce took first place in a field of nine antacids within the top 100 OTC listing, with Mylanta II 12 ounce taking second place in the category (11th and 14th, respectively, in the top 100).

Maalox had three sku's in the top 100 listing: Maalox Plus Suspension 12 ounce, Maalox Suspension 12 ounce and Maalox Plus tabs 3-roll 36s. Maalox Plus Suspension 12 ounce was the third fastest moving antacid and placed 16th among the top 100s.

Vitamins flat

Only two vitamins made this year's top 100 OTC list, reflecting a relatively flat growth year for the category.

The two vitamin brands included in the survey were Centrum 100s, which captured top honors in the two-product field (and came in 18th in the top 100), and Theragran-M tablets 100s, which was the 57th fastest moving product in the top 100 listing.

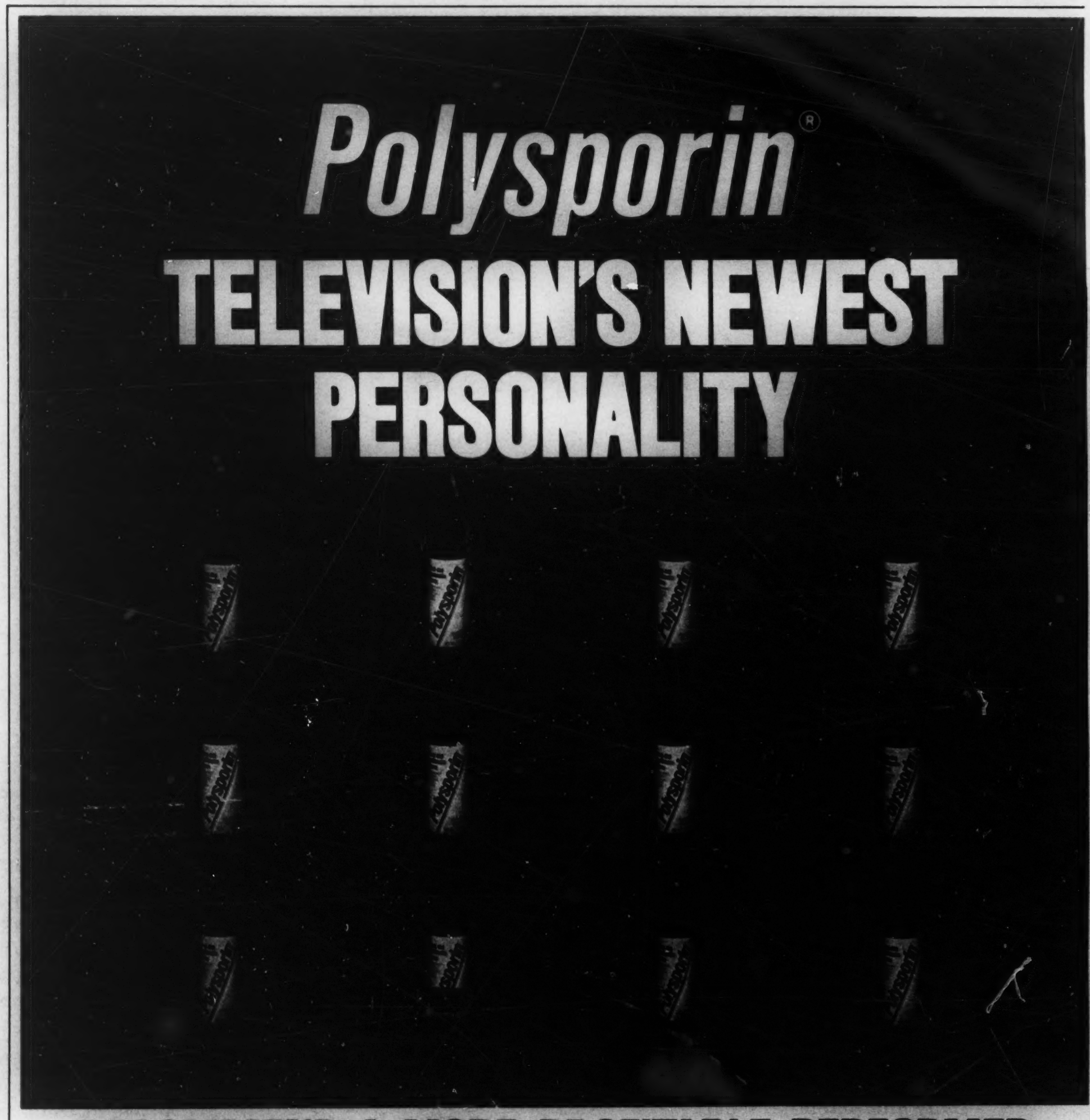
Fleet first in units

Although Fleet Enema was the No. 1 product in unit movement, only one other laxative, Correctol tabs 30s, made the list based on product movement.

A major reason for Fleet's popularity year after year as the fastest moving product is that it is disposable, fast acting and relatively easy to use.

Looking at survey results based on dollar sales, the laxative field becomes a bit more crowded.

Fleet also takes the No. 1 spot here, but is followed by two sku's of Metamucil Regular, 12 ounce and 14 ounce.



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INSIDE PHARMACY

TOP 100 OTC PRODUCTS

NUMBER OF UNITS		DOLLAR SALES		DOLLAR MARGINS	
RANK	PRODUCT NAME	RANK	PRODUCT NAME	RANK	PRODUCT NAME
1	Fleet Enema Disposable 4.5.oz.	1	Centrum 100 w/30 Free	1	Centrum 100 w/30 Free
2	Vaseline Lip Therapy .35 oz.	2	Tylenol Extra Strength Caplets 50s	2	Tylenol Extra Strength Caplets 50s
3	Tylenol Extra Strength Caplets 50s	4	Tylenol Extra Strength Caplets 100s	3	B&L Sensitive Solution 12 oz.
4	Vicks Nyquil 6 oz.	3	Advil Tablets 50s	4	Bayer Reg Strength Tabs 100s
5	Alka Seltzer Plus Cold Tabs 20s	5	Bayer Reg Strength Tabs 100s	5	Tylenol Extra Strength Caplets 100s
6	Advil Tablets 24s	6	B&L Sensitive Solution 12 oz.	6	Mylanta II 12 oz.
7	Afrin Nasal Spray 1/2 oz.	7	Mylanta II 12 oz.	7	Advil Tablets 50s
8	B&L Sensitive Solution 12 oz.	8	Advil Tablets 100s	8	Alka Seltzer Plus Cold Tabs 36s
9	Sudafed Tabs 30mg 24s	9	Anacin Tablets 100s	9	Vicks Nyquil 6 oz.
10	Tylenol Extra Strength Tabs 30s	10	Vicks Nyquil 6 oz.	10	Mylanta Liquid 12 oz.
11	Mylanta Liquid 12 oz.	11	Alka Seltzer Plus Cold Tabs 36s	11	Chemstrip BG Glucose Strips 50s
12	Benadryl-25 Kapseals 24s	12	Tylenol Extra Strength Tabs 60s	12	Allergan Lens Cleaner Tabs 24s
13	Advil Tablets 50s	13	Chemstrip BG Glucose Strips 50s	13	Advil Tablets 100s
14	Mylanta II 12 oz.	14	Tylenol Extra Strength Tabs 100s	14	Trojan Enz Lubricated 12s
15	Tylenol Extra Strength Caplets 100s	15	Mylanta Liquid 12 oz.	15	Tylenol Extra Strength Caplets 175s
16	Maalox Plus Suspension 12 oz.	16	Allergan Lens Cleaner Tabs 24s	16	Drixoral Decongestant Tabs 20s
17	Bayer Reg Strength Tabs 100s	17	Benadryl-25 Kapseals 24s	17	Alka Seltzer Plus Cold Tabs 20s
18	Centrum 100 w/30 Free	18	Advil Tablets 24s	18	Anacin Tablets 100s
19	Neosporin Ointment 1/2 oz.	19	Vicks Nyquil 10 oz.	19	Sudafed Tabs 30mg 24s
20	Unisol 4 Saline Solution Twinpak	20	Advil Tablets 165s	20	Afrin Nasal Spray 1/2 oz.
21	Dimetapp Elixir 4 oz.	21	Alka Seltzer Plus Cold Tabs 20s	21	Tylenol Extra Strength Tabs 60s
22	Benadryl Elixir 4 oz.	22	Fibre Trim Tablets 100s	22	Vicks Nyquil 10 oz.
23	Bayer Reg Strength tabs 50s	23	Drixoral Decongestant Tabs 20s	23	Benadryl-25 Kapseals 24s
24	Robitussin-DM 4 oz.	24	Tylenol Extra Strength Tabs 30s	24	Fibre Trim Tablets 100s
25	Tylenol Drops 1/2 oz.	25	Tylenol Extra Strength Caplets 24s	25	Advil Tablets 165s
26	Tylenol Extra Strength Caplets 24s	26	Sudafed Tabs 30mg 24s	26	Dimetapp Elixir 4 oz.
27	Visine Eye Drops 1/2 oz.	27	Afrin Nasal Spray 1/2 oz.	27	Tylenol Extra Strength Tabs 100s
28	Drixoral Decongestant Tabs 10s	28	E.P.T. Plus Early Pregnancy Test	28	Advil Tablets 24s
29	Tylenol Extra Strength Tabs 60s	29	Theragran-M Tablets 100 w/30 Free	29	E.P.T. Plus Early Pregnancy Test
30	Pepto-Bismol Liquid 4 oz.	30	Dimetapp Elixir 4 oz.	30	Tylenol Children's Elixir 4oz.
31	Pepto-Bismol Liquid 8 oz.	31	Tylenol Children's Elixir 4oz.	31	Tylenol Extra Strength Caplets 24s
32	Alka Seltzer Tablets 36s	32	Tylenol Drops 1/2 oz.	32	Tylenol Extra Strength Tabs 30s
33	B&L Sensitive Solution 8 oz.	33	Tylenol Extra Strength Caplets 175s	33	Theragran-M Tablets 100 w/30 Free
34	Tylenol Children's Elixir 4oz.	34	Fleet Enema Disposable 4.5.oz.	34	Neosporin Ointment 1/2 oz.
35	Vicks Formula 44-D 4 oz.	35	Fibre Trim Tablets 250s	35	Vaseline Lip Therapy .35 oz.
36	Tylenol Chewable Tabs 30s	36	Trojan Enz Lubricated 12s	36	Fleet Enema Disposable 4.5.oz.
37	Vicks Nyquil 10 oz.	37	Neosporin Ointment 1/2 oz.	37	Drixoral Decongestant Tabs 40s
38	Maalox Suspension 12 oz.	38	Os-Cal Supplement 500mg 60s	38	Dimetapp Extentabs 12s
39	Dimetapp Extentabs 12s	39	Dexatrim Extra Strength Caps 20s	39	Tylenol Drops 1/2 oz.
40	Preparation H Ointment 1 oz.	40	Dimetapp Extentabs 24s	40	Dimetapp Extentabs 24s
41	Contac Capsules 10s	41	Robitussin-DM 4 oz.	41	Os-Cal Supplement 500mg 60s
42	Alka Seltzer Plus Cold Tabs 36s	42	Benadryl Elixir 4 oz.	42	Drixoral Decongestant Tabs 10s
43	Summers Eve V&W Twinpk Douche	43	Drixoral Decongestant Tabs 40s	43	Dexatrim Extra Strength Caps 20s
44	Fibre Trim Tablets 100s	44	Dimetapp Extentabs 12s	44	Sudafed Tabs 30mg 48s
45	Trojan Enz Lubricated 12s	45	Maalox Plus Suspension 12 oz.	45	Robitussin-DM 4 oz.
46	Anacin Tablets 100s	46	Vaseline Lip Therapy .35 oz.	46	Fibre Trim Tablets 250s
47	Advil Tablets 100s	47	Sudafed Tabs 30mg 48s	47	Maalox Plus Suspension 12 oz.
48	B&L Saline Solution 12 oz.	48	Pepto-Bismol Liquid 8 oz.	48	Advance Pregnancy Test
49	Tylenol Extra Strength Tabs 100s	49	B&L Saline Solution 12 oz.	49	Aosept Disinfecting Solution
50	Tylenol Extra Strength Caplets 175s	50	Robitussin-DM 8 oz.	50	Robitussin-DM 8 oz.

INSIDE PHARMACY

TOP 100 OTC PRODUCTS

NUMBER OF UNITS		DOLLAR SALES		DOLLAR MARGINS	
RANK	PRODUCT NAME	RANK	PRODUCT NAME	RANK	PRODUCT NAME
51	Maalox Plus Tabs 3-Roll 36s	51	Drixoral Decongestant Tabs 10s	51	Rid Pediculicide 4 oz.
52	Drixoral Decongestant Tabs 20s	52	Glucostix Reagent Strips 50s	52	Contac Capsules 20s
53	Preparation H Suppositories 12s	53	Advance Pregnancy Test	53	Pepto-Bismol Liquid 8 oz.
54	Neosporin Cream 15 gm	54	Dimetapp Elixir 8 oz.	54	Dimetapp Elixir 8 oz.
55	Actifed Tabs 24s	55	Vicks Formula 44-D 4 oz.	55	Trojan Naturalamb 12s
56	Dristan Advance Formula 24s	56	Tylenol Chewable Tabs 30s	56	Blistex Roll Pack Display
57	Theragran-M Tablets 100 w/30 Free	57	Aosept Disinfecting Solution	57	Glucostix Reagent Strips 50s
58	Tylenol Regular Strength Tabs 100s	58	First Response Pregnancy Test	58	Flex Care Disinfecting Sol. 12 oz.
59	Sudafed Tabs 30mg 48s	59	Rid Pediculicide 4 oz.	59	First Response Pregnancy Test
60	Pliagel Soft Cleaning Solution	60	Maalox Suspension 12 oz.	60	Vicks Formula 44-D 4 oz.
61	Actifed Decongestant Tabs 12s	61	Contac Capsules 20s	61	Benadryl Elixir 4 oz.
62	Today Vaginal Sponge 3s	62	Bufferin Reg. Strength Tabs 100s	62	Allergan Lens Cleaner Tabs 48s
63	Dexatrim Extra Strength Caps 20s	63	Flex Care Disinfecting Sol. 12 oz.	63	Allergan Lens Cleaner Tabs 12s
64	Cortaid Cream .5% w/Aloe	64	Metamucil Regular 21 oz.	64	Tylenol Chewable Tabs 30s
65	Contac Capsules 20s	65	Unisol 4 Saline Solution Twinpak	65	B&L Saline Solution 12 oz.
66	Visine Allergy/Cold Drops 1/2 oz.	66	Preparation H Suppositories 12s	66	Maalox Suspension 12 oz.
67	Nuprin Tablets 24s	67	Allergan Lens Cleaner Tabs 48s	67	Unisol 4 Saline Solution Twinpak
68	Allergan Lens Cleaner Tabs 24s	68	Allergan Lens Cleaner Tabs 12s	68	Visine Eye Drops 1/2 oz.
69	Rid Pediculicide 4 oz.	69	Visine Eye Drops 1/2 oz.	69	Bufferin Reg. Strength Tabs 100s
70	Correctol Laxative Tablets 30s	70	Tylenol Extra Strength Tabs 200s	70	Preparation H Suppositories 12s
71	Advil Tablets 165s	71	E.P.T. Plus Double Kit	71	Metamucil Regular 21 oz.
72	Dimetapp Extentabs 24s	72	Preparation H Ointment 1 oz.	72	E.P.T. Plus Double Kit
73	Coricidin D Tabs 24s	73	Nuprin Tablets 50s	73	Tylenol Extra Strength Tabs 200s
74	Aosept Disinfecting Solution	74	Actifed Tabs 24s	74	Contac Capsules 10s
75	Chlor-Trimeton Tabs 4mg 24s	75	Metamucil Regular 14 oz.	75	Fact Pregnancy Test Kit
76	Tylenol Children's Elixir 2oz.	76	Contac Capsules 10s	76	Pepto-Bismol Liquid 4 oz.
77	Allergan Lens Plus Solution 8 oz.	77	Blistex Roll Pack Display	77	Primatene Mist Complete
78	Betadine Douche 8 oz.	78	Primatene Mist Complete	78	Nuprin Tablets 50s
79	Excedrin Extra Strength Tabs 100s	79	Pepto-Bismol Liquid 4 oz.	79	Actifed Tabs 24s
80	Vicks Nyquil 14 oz.	80	Dexatrim Extra Strength Caps 40s	80	Colace Caps 100mg 60s
81	Neosporin Ointment 1 oz.	81	Dristan Advance Formula 24s	81	Pliagel Soft Cleaning Solution
82	Robitussin-DM 8 oz.	82	Colace Caps 100mg 60s	82	A-200 Pyrinate Liquid 4 oz.
83	Comtrex MultiSymptom Tabs 24s	83	A-200 Pyrinate Liquid 4 oz.	83	Today Vaginal Sponge 3s
84	Cortizone-5 Cream 1/2% 1 oz.	84	Pliagel Soft Cleaning Solution	84	Preparation H Ointment 1 oz.
85	Fibre Trim Tablets 250s	85	Primatene Mist Refill 15cc	85	Metamucil Regular 14 oz.
86	Sudafed SA 12HR Capsules 10s	86	Today Vaginal Sponge 3s	86	Dexatrim Extra Strength Caps 40s
87	Nuprin Tablets 50s	87	Comtrex MultiSymptom Tabs 24s	87	Primatene Mist Refill 15cc
88	Visine Eye Drops 1 oz.	88	Nuprin Tablets 150s	88	Stresstabs 600 w/Iron
89	Tylenol Chewable Tabs 48s	89	Correctol Laxative Tablets 30s	89	Boston Conditioning Sol. 4 oz.
90	Triaminic Expectorant 4 oz.	90	Fact Pregnancy Test Kit	90	Comtrex MultiSymptom Tabs 50s
91	Clerz 2 Eye Drops .5 oz.	91	B&L Sensitive Solution 8 oz.	91	Gynol II Contraceptive Jelly Refill
92	Benadryl Regular Tablets 24s	92	Benadryl-25 Kapseals 48s	92	Pepto-Bismol Liquid 16 oz.
93	Bufferin Reg. Strength Tabs 100s	93	Comtrex MultiSymptom Tabs 50s	93	Opti-Zyme Enzymatic Tablets 36s
94	B&L Daily Cleaner 1.5 oz.	94	Stresstabs 600 w/Iron	94	Dristan Advance Formula 24s
95	B&L Sensitive Eyes Cleaner 1 oz.	95	Trojan Naturalamb 12s	95	Nuprin Tablets 150s
96	CoTylenol Cold Formula Tabs 24s	96	Boston Conditioning Sol. 4 oz.	96	Comtrex MultiSymptom Tabs 24s
97	Pepto-Bismol Liquid 12 oz.	97	Gynol II Contraceptive Jelly Refill	97	Neosporin Ointment 1 oz.
98	Vivarin Tablets 40s	98	Pepto-Bismol Liquid 16 oz.	98	Rid Pediculicide 2 oz.
99	Sudafed Plus Tabs 24s	99	Preparation H Suppositories 24s	99	Correctol Laxative Tablets 30s
100	Vicks Vapo-Rub 3 oz.	100	Vicks Nyquil 14 oz.	100	Tylenol Children's Elixir 2oz.

Source: *Drug Store News* Research

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Pharmacy:
Nursing home chain
script centers—p. 37

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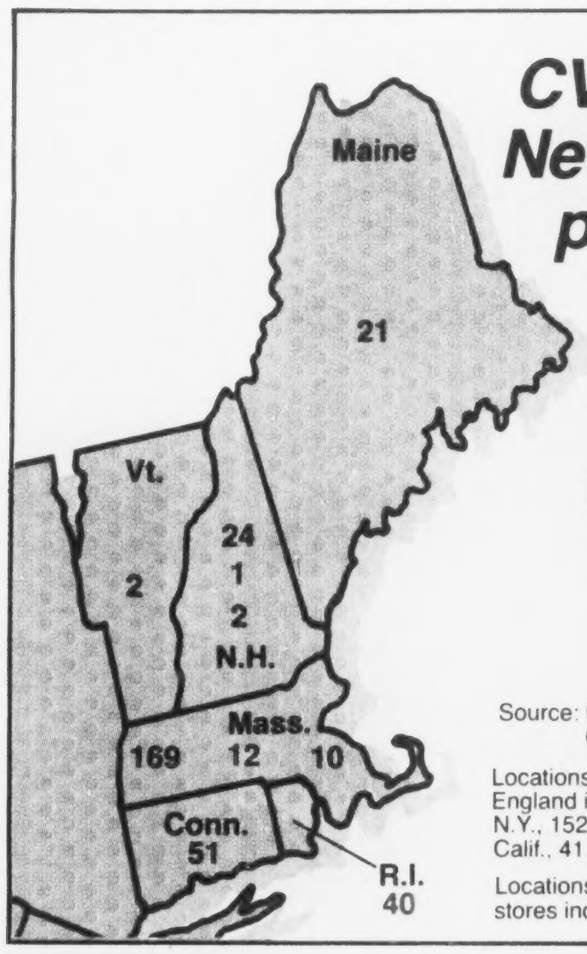
Executive Profile:
Pay 'n Save's Pappas:
Checkstand maven—p. 2

DRUG STORE NEWS

Vol. 9/No. 16 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. August 3, 1987



CVS fortifies New England presence

Number of CVS stores before purchase:

Stores bought from Supermarkets General:

Heartland Drugs:

Pharmacity Drugs:

Source: Melville Corp. and Supermarkets General

Locations of CVS stores outside New England include: Del., 3; N.J., 77; Md., 5; N.Y., 152; Pa., 45; Ohio, 3; Mich., 15; Calif., 41.

Locations of Melville-owned Freddy's stores include: N.Y., 5; Fla., 7.

Melville to buy SGC's 25 New England drug stores

By Dave Vaczek

HARRISON, N.Y. — Debt-heavy Supermarkets General Corp. has signed a tentative pact to sell 25 Pharmacity and Heartland drug stores to CVS parent Melville Corp. That will leave SGC without freestanding drug stores in its most northern markets of Massachusetts and New Hampshire.

The retailers didn't disclose a purchase price, but analysts value the stores at $75 million to $100 million.

The sale of 14 Pharmacity units and 11 Heartland deep discount drug stores reflects SGC's radically altered business picture since its $1.8 billion leveraged buyout in May. Limited capital resources and the need to pay buyout debt prompted the sale, Jeffrey Girard, SGC's vp-treasurer, told *Drug Store News*.

"We felt we couldn't devote the capital to expand (the divisions) the way we would have otherwise liked to," said Girard, who noted the proceeds will service debt.

Converted to CVS format

All the stores—most of which are scattered throughout Massachusetts—will be converted to the CVS format, even though the Heartland stores are about twice CVS's typical 9,000-square-foot format, said Robert Huth, Melville's cfo.

Some of the space will be used to expand departments, or stores might be paired with other Melville retail operations, such as its Linens 'n Things sundry stores, Huth said.

The Heartland store size is more in line with Melville's Freddy's deep discount chain, but Freddy's has concentrated its growth in New York and Florida markets, and there are no plans to convert Heartlands into Freddy's.

See **SGC,** *page 45*

Chains eye Fla. ad tax effect warily

TALLAHASSEE, Fla.— Drug chains are watching closely as national vendors go eyeball-to-eyeball with the state of Florida over its controversial advertising tax.

As an increasing number of manufacturers cancel or scale back advertising programs, drug chains' sales that often rely on vendors' spot and network broadcasts and print campaigns are threatened.

Chain officers and market observers say it's too early to see an impact in retail sales as a result of branded vendors' ad budget cutbacks. They also say it remains to be seen how committed the vendors will be to drastically deflated promo-

See **Tax,** *page 45*

Rite Aid sees green in Gray

By Al Heller

NEW CUMBERLAND, Pa. — "We've been busy," Rite Aid chairman Alex Grass understated to stockholders at the company's recent annual meeting here.

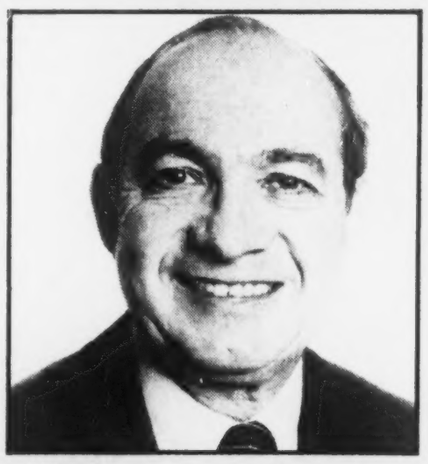
The drug company, which pocketed 574 retail stores during three deft takeover swoops since Feb. 1 and expanded its roster of sites by 45% with these moves, doesn't expect to miss a beat in absorbing the larger base and garnering cost-saving efficiencies.

"We've been able to [absorb and operate acquired stores] with almost no addition to headquarters staff," said Grass, proud to note the "positive effect on expense ratios."

Indeed, he said Rite Aid would cut back Gray Drug Fair's 272-person headquarters staff to 35 and move them to Pennsylvania, probably by September.

Conversion planned

Moreover, Rite Aid will stick with its efficient cookie cutter store mold by converting the 356 Gray Drug Fair stores acquired June 26 into the conventional Rite Aid format. That will involve paring stores back to the bantam size at the rate of two per week through September and four per week thereafter—taking 24 to 30 months to complete.



Alex Grass: 'Almost no addition to headquarters staff.'

Grass expects the stores to perform near typical Rite Aid levels well before then. To help that happen,

See **Rite Aid,** *page 46*

Fisher keeps 42 retail stores open

BEDFORD HEIGHTS, Ohio — Fisher Foods isn't closing its retail stores after all.

The company said it will keep open 42 stores—including its Carl's combos and Jax deep discount drug units—after union rank and file endorsed a clause on layoff procedure it had first rejected.

Fisher—battered by supermarket competition and high business costs in Cleveland—will still be closing 19 Fazio's supermarkets as it tries to stop hemorrhaging profits. The Fazio's, 18 of which were already closed at presstime, are in Ohio markets including Cleveland, Lorain, New Phil-

See **Fisher,** *page 45*

LATE NEWS

• ST. LOUIS — Medicare-Glaser seeks to acquire small chains and independent drug stores to strengthen its home market advantage here, company chairman Harlan Steinbaum told shareholders at the company's annual meeting July 21.

• SEATTLE — Pay 'n Save Stores has agreed in principle to buy the six-store GO Guy Drug Store Division of Bonanza Stores. The stores are generally smaller than most suburban Pay 'n Saves, and could fit in with the chain's downsized format "Limited" concept.

• DETROIT — Seventy pharmacists at Farmer Jack, an 84-store supermarket operator in Michigan, will vote this month on whether they will be represented by The Guild for Professional Pharmacists.

Adaptability keeps indy afloat

By James Frederick

PALATINE, Ill. — Wedged into a modest, easily overlooked strip of storefronts between a delicatessen and a liquor store on busy Dundee Road, Wolff Pharmacy presents a less-than-formidable front to its growing host of big-name competitors.

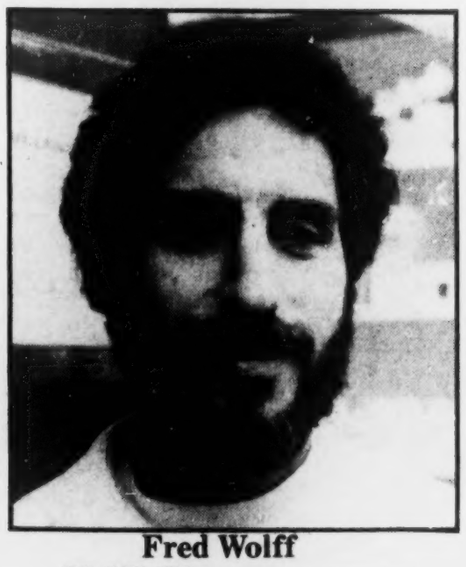
But like a modern-day David, owner-operator Fred Wolff is again being thrust unwillingly into the field of battle—this time to face a corporate Goliath whose march on this town later this year is sure to shake the retail community.

Wolff is the last independent pharmacist serving this growing community on the

INDY FOCUS

outskirts of Greater Chicago. As such, he has survived a gauntlet of competitive, legal and demographic challenges

See **Adaptability,** *page 44*



Fred Wolff
Wolff Pharmacy owner

NEWS IN BRIEF

Duane Reade computerizes pharmacies

LONG ISLAND CITY, N.Y. — Duane Reade, the 30-unit chain of high-volume drug stores, is in the process of computerizing its entire pharmacy operation.

Duane Reade is installing IBM-AT pharmacy computer systems in all its stores. The chain is also using DAGAR pharmacy and medical software to handle a variety of tasks, including single-screen script processing and bi-directional central communications to the corporate offices.

Duane Reade is also using a communications package, designed by DAGAR's parent, Software Development Corp. of Bethany, Conn., to poll its stores each night and ask for sales and third-party billings.

The same communication package also periodically sends product price updates to each store and serves as an electronic mailbox for messages between the individual stores and the main office.

Duane Reade selected the DAGAR system after a two-year test of a variety of computer hardware and software systems.

LaVerdiere becomes major stockholder

WATERVILLE, Me. — Reggie LaVerdiere, vice chairman and ceo of LaVerdiere's Enterprises, owner of LaVerdiere's Super Drug Stores, has become the majority stockholder, after buying 60% of voting stock from family members. LaVerdiere, 64, gained shares that had been controlled by his mother, brothers and sisters through a redemption agreement.

LaVerdiere now owns the company that was started by his father. In the 50 years he has worked at the company, Reggie LaVerdiere has built the drug stores into a 59-store business. It has also developed subsidiaries, including the Action Mail Order Drug Co., a drug repackaging business; Action Family Arcades, a video arcade business; and LaVerdiere's Realty Corp.

Recently, his sons have moved into top management posts, with the eldest son, Stephen, as company president and coo, Michael as executive vp and chairman of the executive board, and Jeffrey, vp-MIS.

Pay 'n Save to open six more Bi-Marts

SEATTLE — Pay 'n Save Inc. plans to open another six Bi-Mart membership discount stores, all in the Oregon market.

Leases for three of the new 30,000-square-foot Bi-Marts have been signed, and the first will open in late 1987 in Lincoln City, Ore., while two more will open in early 1988 in Corvallis and East Tigard, Ore.

Marty W. Smith, president of Bi-Mart, said the company plans to open another three stores in early 1988 in Sunnyside, Wash., and La Grande, Ore.

Bi-Mart operates as a membership discount chain with pharmacies and an expanded selection of general merchandise items.

The additions will give Bi-Mart a total of 40 stores, all operating in Oregon and southeast Washington.

Minn. approves sales of reading glasses

ST. PAUL, Minn. — Minnesota has become the 48th state to pass a law permitting reading glasses to be sold in drug and other mass retail stores within the state. The law, signed by Gov. Rudy Perpich last month, took effect Aug. 1.

New York and Rhode Island are now the only two states that restrict the sale of reading glasses.

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Vol. 9, No. 16 August 3, 1987

Pappas hand-picks items for checkstand sales

'You have to have a feel for what people will buy.'

— Jim Pappas

By Pamela Krein

SEATTLE — Jim Pappas literally surrounds himself with his work.

Hanging from his office walls, tucked away in boxes and piled up on his desk are potential checkstand products. Some never make it into Pay 'n Save drug stores, while other items are quickly included in his planograms.

Pappas directs the checkstand merchandising at all of the chain's 100 stores as director of controlled checkouts. He is among the first in the retail drug field to hold such a position.

When Pappas came to Pay 'n Save from McCrory in January, he was well acquainted with his job. This is the third company where he has held a similar spot.

Prior to his arrival, Pappas said Pay 'n Save had primarily high-priced items at the checkouts. Since the start of his planogram this summer, however, all stores carry a stronger price mix of impulse items and other products that are generally planned purchases. According to Pappas, approximately 75-80% of the purchases made at a checkstand are done on impulse.

So items like jars of peanuts, tape, magnets, film, batteries, razors, candy and rubber gloves—"anything from toothbrushes to pencils," as Pappas noted—are now strategically placed on planogrammed checkout panels.

Executive Profile

The merchandise is not aimed at just one type of shopper, Pappas explained, adding that he tries to include "something there for every age [group]."

Pappas said checkstand merchandise turns at least six times a year, and considerably more often for such items as gum, candy and lighters.

Pappas enjoys showing visitors the array of merchandise surrounding him, and his office is almost like a toy store. On one wall, he displays his latest find—magnets in various shapes and designs, which will soon be in the stores.

Off in the corner of his office are boxes of additional merchandise, while on his desk are more items ranging from gag gifts to kitchen gadgets. Some of the products peak Pappas' interest, while others are returned to the vendor.

While working on Pay 'n Save's new checkstand program, Pappas said he came up with six times the amount of merchandise he needed. He relied on his instincts to narrow down the field. "You have to have a feel for what people will buy. If I like something, I just go out and buy it."

New merchandise continues to flow into his office every day, and Pappas considers all of it on the basis of whether it is "something people can use." Once an item is selected to go into the stores, Pappas said he is careful not to overprice it, so it offers a good value and/or retains its impulse nature.

See story on Pay 'n Save appointments — pg. 45

Although the merchandise will be changed periodically at the checkstands, Pappas said the fast-selling and reliable items "are there for life." But the merchandise that does not live up to his expectations or begins to slow in sales is quickly replaced, he noted.

The introduction of Pappas' controlled checkstands this summer coincides with Pay 'n Save's overall store reformatting plan, designed to take it back to its drug store image. Pappas was one of several upper management personnel to join Pay 'n Save in January, and he is also one of a number to come from McCrory.

Pappas started his career at the age of 14, working in a grocery store as a meat cutter. He then worked in the wholesale business for a number of years before joining Jefferson Ward followed by McCrory.

At Pay 'n Save, Pappas' planned checkstand panels allow store personnel to easily replace merchandise as it sells. Reorders are processed

Continued on page 45

Jim Pappas was one of several key people joining Pay 'n Save in January. As director of controlled checkouts, he has a wide variety of potential checkstand items inundating his office.

Correction

Drug Store News incorrectly reported Pay 'n Save's plans in the July 6, 1987 issue. The West Coast chain does not plan to open twenty 60,000-square-foot stores in Alaska and Hawaii. Pay 'n Save's plans involve opening 4,000- to 6,000-square-foot apparel departments in 20 of its 20,000- to 60,000-square-foot stores in Alaska and Hawaii.

TRENDS

Chains polish nail departments to exploit hot items

Chain drug store buyers are continuing to upgrade their nail care departments to take advantage of strong growth trends in both nail treatments and nail extenders or press-ons.

Buyers are also revamping their color sections to exploit continued growth in the Revlon and L'Oreal color lines and improved sales for brands such as Max Factor and Almay nail colors.

Buyers say that while nail extender sales seem to have peaked in their stores as the category reaches maturity, the growth is still unusually robust, particularly in the low-end segment of the category.

Extender sales up

Many chain drug store buyers say that sales in the total nail extender category are up 10%-25% over last year, with category leader Lee Nails still turning in a strong performance.

The less expensive or budget brands, however, are also showing strong growth, especially the nails made by Kristy Wells, Emerge, Artmatic and Wet 'N Wild.

Buyers are also enthusiastic about the nail treatment and nail implements categories. Many buyers say their treatment sales are even stronger than their press-on nails. And implements, although it is still a relatively low dollar volume category, is growing in some chains at the rate of 10%-15% a year.

Buyers report that some of their strongest growth is coming from the Salle 10 treatment line from Salle 10 International; the Sally Hansen treatment line; a variety of professional nail care brands, including such brands as Orly, Bondini and European Formula; Del Labs' La Cross implement lines; and the Revlon and Jonel implement lines.

Fay's cherrypicks La Cross

At Fay's Drug in New York, buyer Dale L'Amoureux says the La Cross line of implements from Del Labs has been doing well. Fay's, however, has cherrypicked the La Cross line and is currently carrying just two sku's.

She added that at the moment, Revlon is still her best implement line and that it is "too soon to tell" if La Cross will be able to give Revlon real competition.

In nail treatments, L'Amoureux said her best sellers to date are Salle 10 and Cosmagique's Nutra Nail. Nutra Gloss, which is new to Fay's, is also "excellent."

Revlon and L'Oreal are the two best nail polish brands in Fay's, says L'Amoureux, but in the budget segment, Wet 'N Wild and Emerge are also doing well.

Prior to the Rite Aid takeover at Gray Drug Fair, merchandisers were reporting strong sales for the Salle 10 Nail Strengthener, the Salle NoChip and many of the Sally Hansen treatment sku's.

The merchandising experts at Gray Drug Fair, however, said the Salle 10 growth was the strongest, and they believed this was because the Salle 10 brands are positioned as a "line of treatment products. Sally Hansen has a line, too," said one source, "but Salle 10 is packaged and marketed as a line, while the Sally Hansen brands are marketed as individual items."

Most buyers also report they are now planograming in a separate section for nail treatment and implement products. The reasoning is that treatment and implements are strong enough categories in themselves to be set apart from nail enamel and nail press-ons.

Most buyers say they put their treatment/implement sections close to nail color, but they call extra attention to them by giving them 4-8 feet of their own.

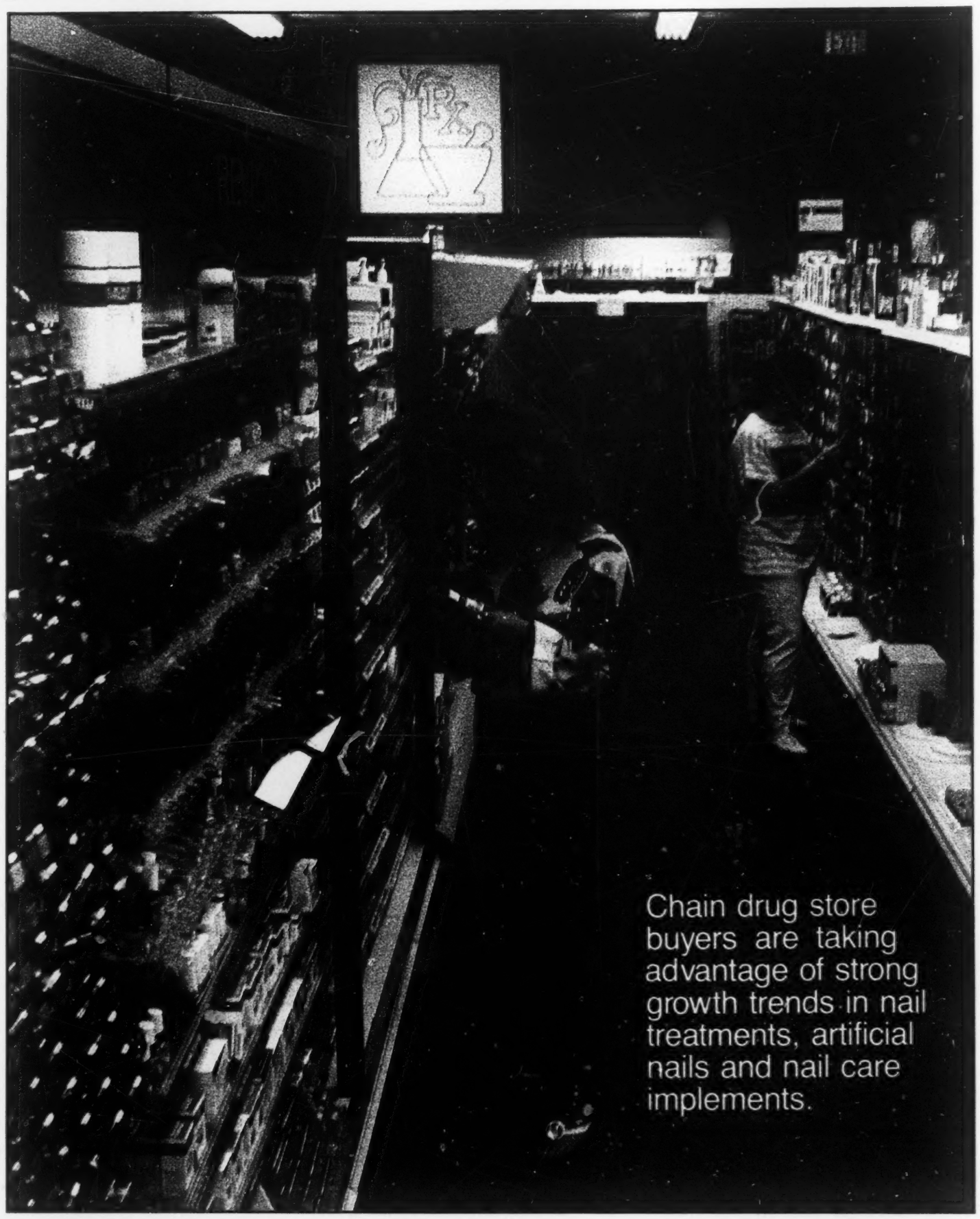
Some chains, particularly those with stores in California, are also using endcap fixtures or floor boutique displays with such names as Nail Salon and Nail Center to generate incremental sales.

Managers in California are particularly enthusiastic about the Jonee Nail Salon, which holds some 125 sku's in a fixture 42 inches wide by 15 feet deep. There are currently about 500 stores with nail salons, including Drug Emporiums, Longs and Oscos.

Some managers report annual sales of about $14,000 from the salons, with profits averaging about $5,600 a year. Jonee recently began television advertising for its Long Nails press-ons in select markets.

Aggressive advertising

Many buyers also say they are taking advantage of increased manufacturer consumer advertising in this category to promote nail treatment items more aggressively than ever before.



Chain drug store buyers are taking advantage of strong growth trends in nail treatments, artificial nails and nail care implements.

One Midwest buyer said the growth could be stimulated dramatically by advertising. "Many of the other cosmetic and H&BA categories yield instant gratification," he said. "You put on a press-on, and within seconds, you have new, longer nails. You put on lipstick or eye shadow, and immediately you see the result.

"But treatment products take time to work. They take discipline to apply, so sometimes the consumer can pull back from the category because it takes awhile to see results.

Treatment sales surge

"We find, however, that if we advertise treatments regularly, we can create even better growth than 25% to 30% a year."

At Revco, cosmetics buyer Nancy Stone said that treatment sales have definitely surged in 1987, and her feeling, based on store observations, is that treatment sales have now surpassed press-on sales and that nail treatment items may be the fastest growing segment in color cosmetics.

Stone said she is revamping her nail care planogram to eliminate slow turners.

Retailers appraise category prospects, servicing

Because nail care has set the color cosmetics growth pace for the past few years, *Drug Store News* decided it would be helpful to know how drug store retailers view the category's future and how they evaluate some of the major vendors on overall service and performance.

To do this, we commissioned Lebhar-Friedman Research to conduct a mail survey of merchandise managers and buyers at the nation's top 50 drug chains this spring.

In all, 19 companies, or 38%, of the top 50 highest volume drug chains responded to our questionnaire.

The respondents account for more than $10 billion of all chain drug store sales and 21% of the industry's annual volume.

Nail care growth prospects

Taken together, the respondents in our survey represent 3,500 stores, or about 19% of all chain drug stores in the nation.

Their opinions on the nail care category follow.

According to the survey, 36% of all drug store chain executives plan to expand space for the nail care category within the next 12 months.

Four out of every 10 respondents say they will, at the very minimum, keep the space for nail care as it is now, and two out of every 10 say they plan to increase space for this category in the next 12 months by at least 15%.

Buyers tell *Drug Store News* that nail care's strength is rooted in the nail extender segment and its positive impact on nail treatment, implement and polish sales.

They also say women will continue to support the category, because of the renewed interest in looking "fashionable and glamorous" and because of the growing incidence of working women who feel that well-manicured and well-groomed nails are essential to achieving a "professional image."

Four out of every 10 say they expect sales to climb

Continued on page 12

TRENDS

Nail care

Retailers size up nail category prospects, servicing

Continued from page 9

10%-20% for all nail care products in the next 12 months; two out of 10 believe sales will increase 25%-30% over the next year.

Another 38% say they think sales will grow at least 5%. No one, according to the *Drug Store News* survey, expects sales to decrease in nail care.

Buyers say they don't believe sales will peak or stabilize in this category for at least another "18 months to 2 years."

Many say that as a result of nail extenders' success, women are trying other types of nail products, particularly nail treatment and nail implements designed to strengthen and maintain the health of the nail, the nail bed and the cuticle areas.

Higher consumption in the category has also helped nail polish and nail enamel sales, which still account for more than 50% of all nail care retail dollars.

We asked buyers and merchandise managers which nail polish brands they thought were most in demand in their stores.

How nail care companies stack up
(% of respondents rating companies excellent or good)

Area	Revlon	L'Oreal	Sally Hansen	Max Factor	Cutex	Aziza
Consumer demand	94%	94%	63%	39%	54%	47%
Consumer ad support	95	100	50	37	50	26
Trade advertising	89	94	69	61	40	47
Product quality	100	95	69	67	62	57
Packaging	95	100	69	72	38	74
Breadth of line	95	78	93	33	31	22
Servicing	68	89	25	73	35	47
Special promos/deals	73	89	56	39	15	42
Delivery fulfillment	74	100	31	53	57	68
Product innovations	72	24	78	37	—	63
Merchandising support	63	84	44	37	24	37
Company's past performance	68	89	56	42	29	47
Most improved company	67	67	71	76	—	27

Source: *Drug Store News* Drug Chain Retailer Survey

Nearly five out of every 10 retail respondents picked Revlon and L'Oreal as the nail polish brands most popular with their consumers.

Several buyers described the Sally Hansen and Cutex lines as promising, but "not living up to their potential."

Consumer ad support

Nearly five out of every 10 retailers rated L'Oreal as excellent in consumer ad support, but just two out of every 10 buyers and merchandisers said the same for Revlon.

Product quality

Retailers also thought L'Oreal and Revlon were the runaway leaders on product quality.

In rating Cutex, 23% of respondents said quality was poor, while 15% considered it at least fair. The rest considered it good.

Nearly two out of three, 63%, said Sally Hansen's quality was good; 6% said excellent.

One out of every 10 retailers felt Aziza's quality was poor, 22% thought it was just fair, and five out of 10 felt it was good.

Packaging

Revlon and L'Oreal both stood out over the competition on packaging scores.

In comparison, 28% of respondents felt Factor nail polish packaging was excellent, and another 44% termed it good.

Breadth of line

Retailers felt that Revlon had the broadest nail care offerings.

Thirty-three percent of all respondents also thought the breadth of the Sally Hansen line was excellent, while 60% called it good. Just 7% rated Sally Hansen poor on selection.

Twenty-eight percent rated L'Oreal as excellent on selection; 50% called the line good. Twenty-two percent, however, said the L'Oreal line was only fair in terms of breadth of selection.

Seventeen percent thought Aziza's selection was poor, just 22% rated it good, and the majority, 61%, called it fair.

Servicing

In the area of servicing, retailers gave L'Oreal A+ for excellence.

No other company scored higher than 7% in the "excellent" category, but seven out of 10 respondents said Max Factor's servicing was good to excellent, while 68% said Revlon's service was good to excellent.

Just three out of each 10 respondents said Cutex' service was good to excellent, and nearly five out of 10 rated Aziza's service good to excellent.

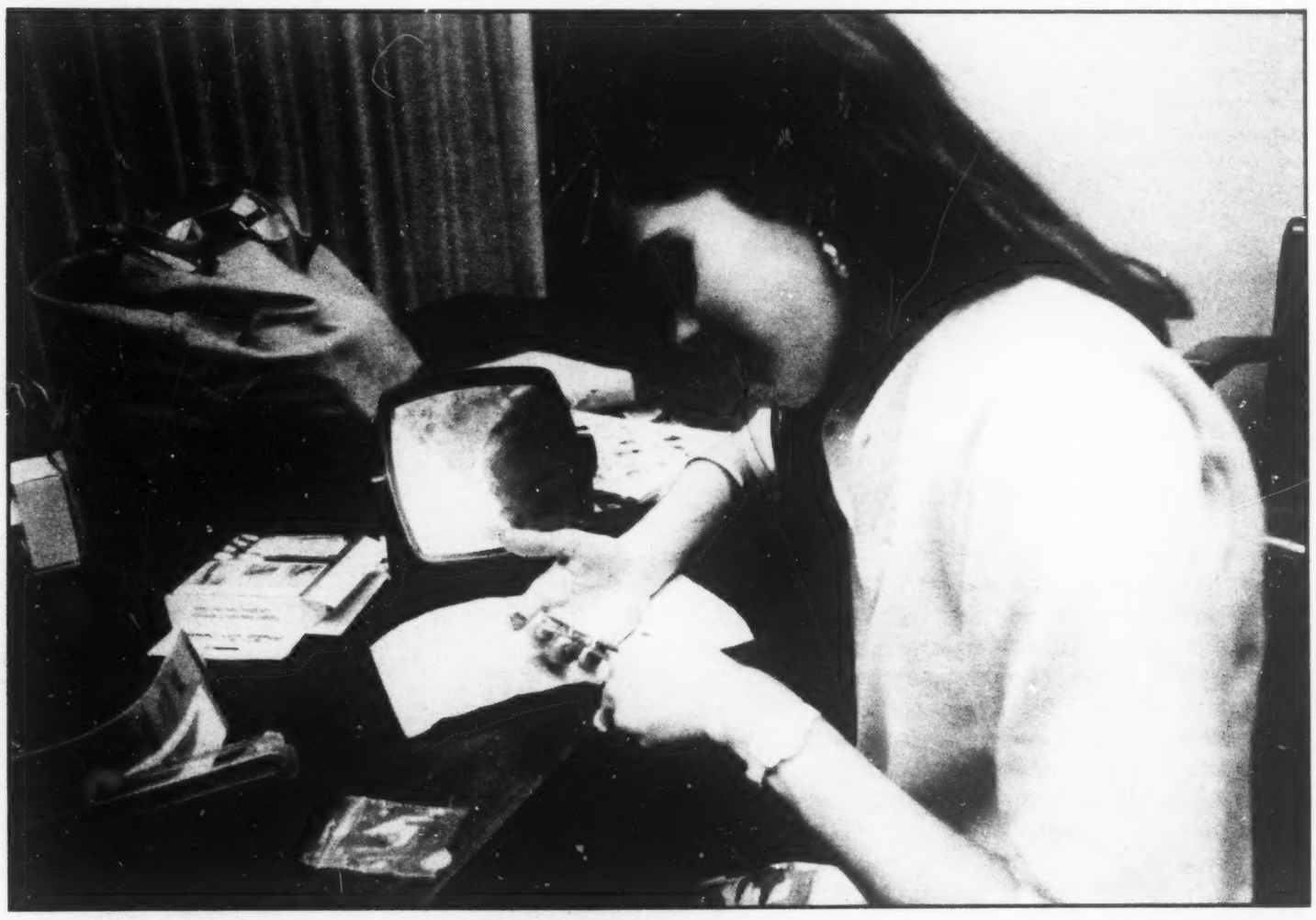
Special promotions/deals

Only L'Oreal and Revlon were chosen as excellent in providing special promotions and deals, and in this area, L'Oreal got more favorable mentions than Revlon.

Fifty-six percent of all respondents described Sally Hansen's promotions as good, 39% called Factor's promotions good, and 42% described Aziza's promotions as good. Just 15% said Cutex had good deals or good promotions, however.

Buyers said that, in general, the seasonal promotions and displays with header cards provided by both Rev-

Continued on page 16



Buyers say nail care's strength flows from extender segment, which teen-agers have helped popularize.

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TRENDS

Nail care segment remains growth leader in cosmetics

As 1987 enters into its second half, the nail care category remains the fastest growing segment in mass market cosmetics.

According to *Drug Store News* estimates, total mass nail care sales increased about 18% to $530 million for the year ending Dec. 31. Nail press-ons continued to exhibit strong growth, but they were being overshadowed by surges in nail treatment sales.

The nail treatment category, according to estimates based solely on manufacturer sales calculations and projections, was up about 25%, to approximately $138 million. The treatment category includes sales of nail fixatives and hardeners as well as such products as nail color removers and specialty items like French manicure kits and silk wraps.

Based on manufacturer estimates, nail extenders generated an estimated 10% increase in sales to about $110 million, while implements, which include nail files, emery boards and buffers, were up an estimated 8%, to about $15 million.

The nail color category, according to Nielsen Marketing Research, also increased 8%, to $267 million.

Buyers say that much of the growth in the nail care category is still being stimulated by the plethora of new products entering the market, as well as by the interest women continue to show in cultivating nails that look glamorous and sophisticated.

The Lee press-ons, for instance, which launched the press-on category just four years ago, now have dozens of imitators.

Out of the salon

New treatment items and nail glamour items like the silk wraps and French manicure kits, which were once available only in beauty salons, are now being manufactured and distributed by many retail supplier companies.

Buyers say the new items are stimulating thousands of women who never had a manicure or a silk wrap before to try these types of products at prices they can afford.

"In a salon," said Peoples cosmetics buyer Judy Wincze, "a woman could pay as much as $50 to $60 for a French manicure or a silk wrap. Now that these products are available at retail, they can buy and try them at home for between $4 and $10."

Buyers also say that the dollars that such manufacturers as Revlon, L'Oreal and Lee are spending on consumer advertising are continuing to increase the demand for nail care products.

In fact, some buyers still credit the television commercials that Lee Pharmaceuticals has done for its press-on nails with creating and sustaining the entire press-on category.

Buyers also say the millions that Revlon has spent to support its nail color line have made the brand "the No. 1 color brand in the mass market."

According to manufacturer estimates, nail implements generated an 8% increase in sales during the past year, to $15 million.

Nail care retail sales by category segment

(Food, drug and mass merchandise stores)

Category	1986 $ sales (millions)	% chang	% Share of total category sales
Nail color[1]	$267	8%	50.3%
Nail extenders[2]	110	10	20.7
Nail treatments[3]	138	25	26.0
Nail implements[4]	15	8	3.0

[1]Nielsen Marketing Research
[2]Includes sales of all artificial nails including press-ons and nail adhesives. Sales based on manufacturer estimates.
[3]Includes all nail mending and nail specialty products like manicure kits and nail polish removers. Total sales based on manufacturer estimates and revised 1985 sales estimates.
[4]Includes all types of implement products: files,emery boards, buffers, etc. Total sales based on manufacturer estimates and revised 1985 sales estimates.

Source: Nielsen Marketing Research for nail color, and manufacturer estimates for all other.

Innovative products spur nail care category growth

Continued from page 15

tial sell-throughs with the off-the-counter display, which holds 90 pieces.

Professional care items

Starting in 1986 and continuing into 1987, several drug chains and some of the larger independents have experimented with an assortment of professional nail care brands, obtained from a fairly new distribution source known generically as specialty distributors.

Some specialty distributors, such as Trafficreators/Mercury Distributors based in Chatsworth, Calif., have begun to distribute professional nail as well as professional hair care products, direct to retail stores.

The specialty distributors all represent manufacturers who built their business through distribution to professional beauty salons. Now these manufacturers are using the specialty distributors to expand their distribution on their best-selling brands into such retail stores as Walgreens, Longs, Pay Less, CVS, Pay 'n Save and Bills Drug.

Many of these chains are testing a 65-sku display called a Nail Salon. The set features most of the brands that have proven to be best sellers in beauty salons.

One source said that a Walgreens store in San Francisco is currently generating about $22,000 a year from one 3-square-foot Nail Salon unit.

Margins on the items in the Nail Salon average about 45%.

Retailers on the West Coast are also reporting good results with a line of professional style nail care products called Fingrs.

Fingrs sold in chains

Fingrs, a subsidiary of Entrecap Corp., has had professional distribution for over 15 years. In the last few years, the line has been sold in many West Coast chains such as Thrifty, Pay Less, Pay 'n Save and Longs, as well as in K & B stores, Peoples Drug and Drug Emporium.

Fingrs has a new French Manicure kit in distribution and a new promotional floor display that features 19 of their best-selling sku's, including nail extenders and nail art.

Survey probes chain retailers' views

Continued from page 12

lon and L'Oreal were crucial factors in contributing to the success of these brands in their stores.

Merchandising support

Three out of every 10 respondents again gave L'Oreal an excellent rating on its merchandising support to drug stores.

Sixteen percent said Revlon's merchandising support was excellent, while 63% said Revlon was good to excellent in its support.

Thirty-seven percent of the respondents thought Factor's merchandising support was good.

Seventy-five percent of the respondents said Sally Hansen's support was fair to good.

Delivery fulfillment

Retailers also selected L'Oreal as the best company to fulfill its delivery requirements. Three out of 10 respondents said L'Oreal was excellent in fulfilling its delivery requirements, while everyone said the company was good to excellent.

No one else received an excellent rating in this category, but seven out of 10 respondents described Revlon as good on delivery fulfillment. Sixty-eight percent said Aziza was good, and 57% said Cutex was good.

Hansen, however, was rated good to excellent on new product innovations. More than three out of 10 respondents said Hansen was excellent in creating innovative new products, while 78% gave Hansen a good to excellent rating.

Sixteen percent also said L'Oreal and Aziza were excellent in creating innovative products.

Trade advertising

Retailers rated L'Oreal and Revlon good to excellent in the effectiveness of their trade advertising programs.

More than nine out of every 10 respondents described L'Oreal's trade advertising programs as good to excellent, while 89% said that about Revlon.

Past performance

Drug Store News also asked retailers how they would evaluate each company's past performance in catering to their needs.

L'Oreal again got the highest ratings.

Sally Hansen was the only other company to be mentioned as excellent in this area, by 6% of the respondents.

Fifty percent called Sally Hansen's past performance good, while 68% said that about Revlon. Forty-seven percent said Aziza's performance had been good, 42% said that about Factor, and 29% described Cutex as good in this area.

Buyers said the "poor" ratings were prompted by a variety of factors, among which were lack of innovation on the company's part in developing new products, and "rigidness" in their return programs.

Some buyers said they also rated a company as poor if it failed to develop a strong series of fashion or seasonal color promotions or if service at the store level was inadequate.

Most improved

Retailers said Factor and Revlon were the two most improved companies in the survey, and also the companies "to watch" for future developments in nail care.

Nearly three out of every 10 respondents named Factor and Revlon as most improved, and 67% called Revlon good to excellent in this area. Seventy-six percent said Factor's improvements were good to excellent.

Neither Factor nor L'Oreal received any poor ratings.

Twenty-seven percent of respondents gave Aziza a good rating on improvements.

The survey found a strong correlation currently between how retailers perceive each company and the number of chains stocking each company's nail care brands.

TRENDS

Sensitive-skin shavers change face of razors/blades

With the maturing of the baby boom generation, the market for razors and blades remains healthy but relatively flat, with unit and dollar sales both showing only slim advances in 1986.

The increasing demand among shavers for products designed for sensitive skin, however, is causing a huge internal shift in the manufacturing and marketing of the category.

Blade and razor sales totaled $682 million at retail last year, according to The Gillette Co., with blades (including disposable razors) accounting for $644 million and permanent razors representing $38 million in sales. In units, blade sales edged up to 2.06 billion units last year from 2.02 billion in 1985, Gillette reported, while razor units sales were flat at 14 million.

Disposables building

Disposables continue to grab an ever-increasing share of the blade market, Gillette added, with 58% of unit sales last year and 43% of dollar volume, compared with 54% and 42%, respectively, in 1985.

"Disposables have been growing at a very rapid pace, and the trend is continuing," agreed Mike Merwin, marketing manager for Bic. "We think they'll grab at least 60% of total unit sales this year, and we feel there's still a lot of growth in that segment because of their convenience and value."

Changes are brewing within the category, however, because of the increasing popularity of shaving products for sensitive skin, which are designed to lubricate or protect the face during shaving. According to recent research by one manufacturer, almost half of all men surveyed rated themselves as having sensitive skin in terms of shaving. And the success of Bic's shaver for sensitive skin and Gillette's Good News! Plus with a lubricating strip has not been lost on the industry.

According to recent industry estimates, Bic's shaver for sensitive skin, introduced in January 1986, has already claimed nearly 9% of the total blade market in units. Gillette's Good News! Plus, which releases a lubricant during shaving, has also been well-received since its introduction late last summer and has bolstered the brand's lead in dollar sales.

"Retail buyers have told us that the Bic Shaver for Sensitive Skin is already selling at close to a 50/50 par with the regular white Bic Shaver in many stores," said Bic's Merwin. "It's already the No. 4 brand and growing fast."

Chain drug buyers polled by *Drug Store News* seemed to agree and said they were adjusting their mix accordingly. Said Curt Macke of Pay 'n Save: "There seems to be a pretty big expansion of our sku's into the sensitive-skin area in shaving. We see Bic really tying into that with their floorstands."

"Disposables keep leaning a little more toward the skin-care trend," agreed another chain drug buyer. "There are always a lot of me-too products in this category, but that's a growth area."

Overall, the razor/blade market remains dominated by just four brands—Gillette, Bic, Wilkinson Sword and Schick. The top four brands, in fact—Bic's regular and sensitive skin disposables and Gillette's Good News! and Atra—alone account for nearly half the market in units.

Redoubling efforts

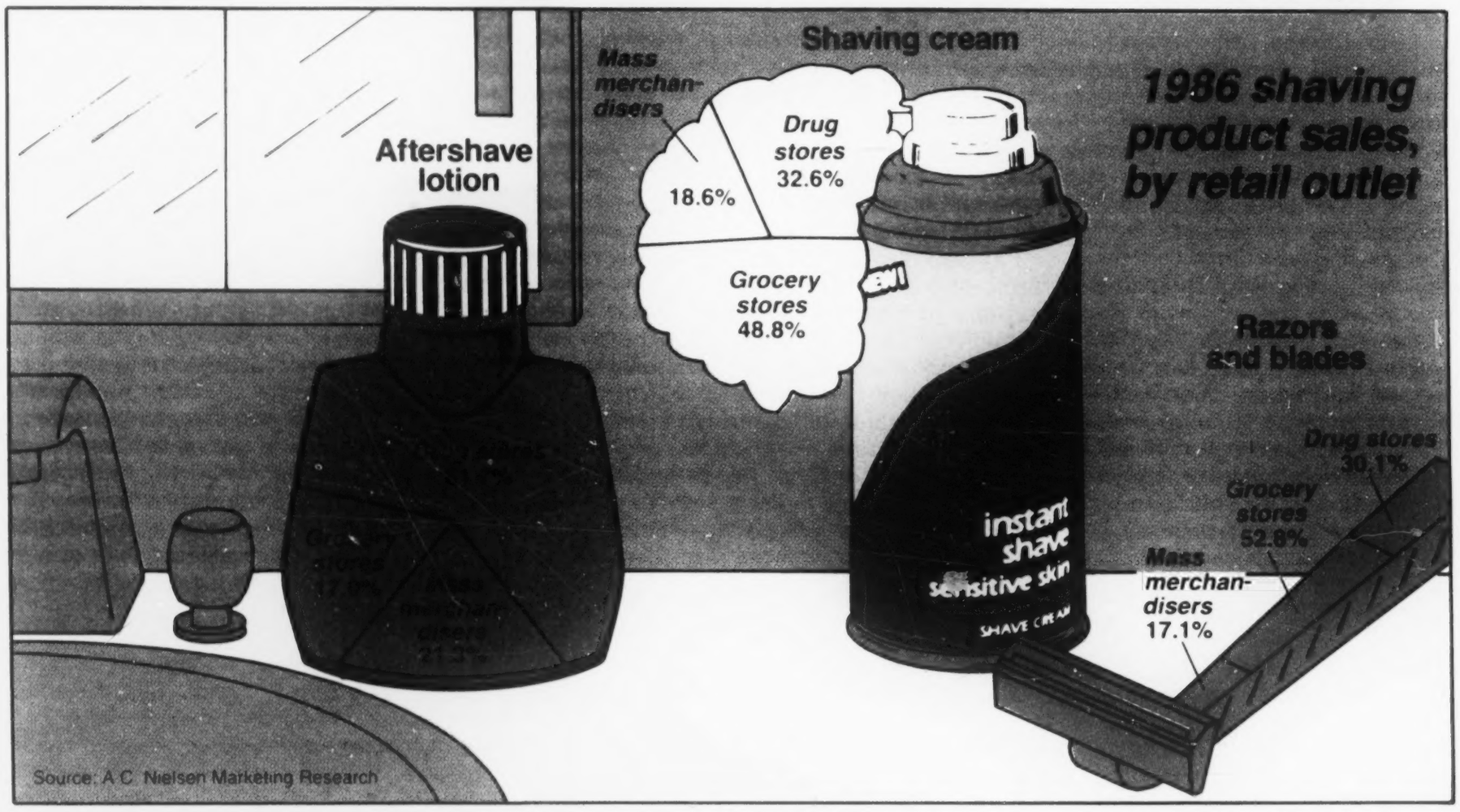
For its part, Wilkinson is redoubling its efforts to capture additional share with two new product innovations. One is the Traveler, which combines the convenience of a disposable with the features of a cartridge razor system. The new razor's thick plastic handle serves as a magazine containing three twin-blade cartridges for convenience on business trips; when used up, the entire $2 system can be thrown away.

Wilkinson is also rolling out Colours, a package of five disposables in different colors priced 59 to 69 cents at retail.

Bic, meanwhile, is preparing a new bonus pack consumer promotion for the fall, with six razors for the price of five. The program will be supported with a nationwide 20-cent coupon drop in freestanding inserts September 27.

With about 30% of the total market for razors and blades, drug store retailers continue to search for their own ways to build market share. Chains like Perry Drug Stores, Walgreens and Pay 'n Save offer enlarged pegged sections in some stores to increase their depth in the category and support continual promotional programs.

The chains are also adept at buying and creatively merchandising razors and blades. Said one buyer: "We run them on ad quite frequently, and we typically buy them in prepack floorstands of as many as 144 because we get a better deal on them that way. Even if we have product left over after the sale, we can just make room in our in-line sections for it, and we've still gotten it at the best price."



Women cut swath in razors/blades

Women make up a huge segment of the market for razors and blades, although their impact is hidden by the fact that most still purchase the same products that their husbands or boyfriends buy.

More than 80 million women shave in the United States, according to The Gillette Co., and 90% of those women use a blade/razor wet shave product. By comparison, an estimated 88% of all U.S. men shave, 73% of them with a blade/razor device.

As consumers in the shaving category, however, women are still hard to differentiate from their male counterparts. Products aimed specifically at women, like Gillette's Daisy and Bic's Lady Shaver, have claimed a solid niche in the market, say manufacturers and retailers, but that niche is still overshadowed by the general market.

"The women's razors do OK, but generally I think women tend to just pick up what men are buying in disposables and cartridges," said one buyer.

Chain sales of creams and gels up 15% in '86

Shaving creams and gels constitute a small but growing segment of the drug store H&BA mix, with total sales in chain drug stores up a healthy 15.1% in 1986, to $51 million.

The gains were due to price hikes, aggressive promotions and continuing efforts by chain drug merchandise managers to sharpen their toiletries mix and cut down on sluggish performers among the crowded field of shaving preps.

Drug stores account for nearly a third of all sales of shaving creams and gels, according to A.C. Nielsen, compared with supermarket outlets with nearly half the market and mass merchandise chains with less than 20%. The total U.S. shave cream market is estimated at $250 million at retail.

Drug stores maintain share

Drug store retailers have maintained a solid share of the market by promoting heavily and keeping close tabs on their shelves, including, in some cases, beefing up shelf space for the shaving needs category.

"In line with our chainwide retrofit, we expanded our space for shaving products to a full 12-foot section, with pegged razors and blades on top and creams beneath," said H&BA buyer Curt Macke of Pay 'n Save. "Creams and gels are fairly price sensitive, but they do well as volume generators. We promote them a lot because they bring in traffic, and they lead customers to buy some higher-profit razors and blades, too."

"Shave creams aren't a real hot category, but they're fairly profitable for us," added Steve Rubin, H&BA buyer for Fort Wayne, Ind.-based Keltsch Bros. "The category is pretty well saturated with brands and line extensions, but we do well with a few definite market leaders.

"Basically, there are two types of consumers in this market," Rubin continued. "One is looking for the cheapest brand and the best price possible, and the other is going for the best quality he can find. It's a distinct upper- and lower-end market, with Barbasol on one end and Gillette Foamy and Noxzema on the other. We're covering both ends, and there doesn't seem to be a lot of activity in the middle."

Healthy private label business

Even high-end brands, however, are promoted heavily in chain drug circular programs, with rotating low-price leaders the weekly norm. Prices are frequently slashed to below $1 on special, and some chains, including Walgreens, do a healthy business with their own low-priced house brand of shave cream. Walgreens, for instance, devotes several facings to its private label brand in its biggest shaving needs sections, which run up to about 10 linear feet.

For their part, manufacturers of Foamy, Edge, Colgate, Noxzema and other major brands are locked in a highly competitive struggle for market position. Noted one industry spokesman, "The U.S. wet shave market is a closely bunched industry, with the leading competitors claiming market shares ranging from 17% to 22% of the annual business in units."

Retailers have been quick to spot winners and brands that are struggling. Pay 'n Save's Macke, for instance, noted that the market for shaving gels is highly concentrated. "Edge has done extremely well here and at Osco, where I used to buy for the category, and seems to have the lock on that side of the market," he said.

Despite a crowded field, at least one manufacturer has prepared a new major entry into the shave cream market. Keying in on the rising demand for shave products for sensitive skin seen in the razor market, Wilkinson Sword has rolled out its first shaving cream, aimed at reducing skin irritation. The product contains Hyladerm, a patented form of hyaluronic acid, to tone and condition the face, according to the firm.

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Zany ads boost bulbs—p. 14

C.E. Lesson:
Treatment of osteoporosis—p. IP45

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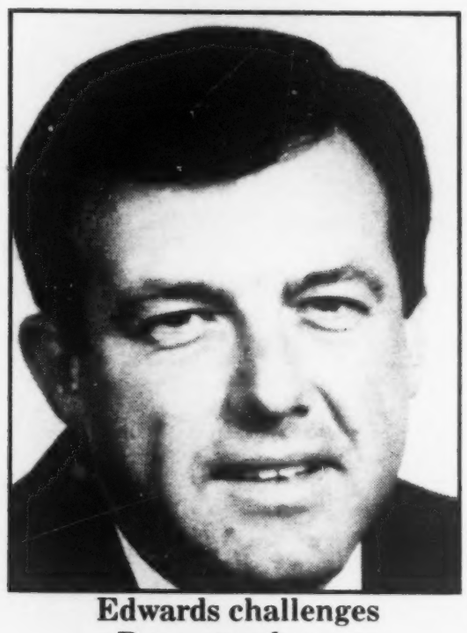
DRUG STORE NEWS

Vol. 9/No. 17 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. August 24, 1987

Revco to managers: Boost profitability



Edwards challenges Revco employees

TWINSBURG, Ohio — Revco has targeted stores throughout the Southeast whose performances need improving.

Officers said the chain has launched a bonus program for store managers that is tied to new performance goals to boost the stores' profitability.

"This is a way that we are challenging people to do a better job," said Bill Edwards, Revco's ceo, who said the program's goal is to turn around unprofitable units that have been uncovered through extensive analysis of stores' results and their markets.

Edwards advised store managers in a letter last month that their stores had been identified as not meeting standards. Market sources said that a majority of about 200 units in five Southeastern states were notified they are now in "a review period."

The letter indicated that stores might be closed or sold if they didn't eventually improve.

The stores are in Florida, Alabama, Mississippi, Louisiana, and Arkansas.

Revco advised store managers in Detroit last month it is

See **Revco,** *page 81*

Reports some gains

TWINSBURG, Ohio — Heavy interest expenses related to last year's leveraged buyout are squeezing the bottom line for Revco D.S., but the chain's latest fiscal report also paints a picture of healthy gains in per-store sales and operating profits.

For the fiscal year ended May 30, Revco reported operating profits of $159 million on sales of $2.7 billion. Interest payments totaling $81 million and an accelerated depreciation and amortization schedule, however, cut net earnings to $10 million for the year, compared with a net of $56.9 million last year.

For the 16-week fourth quarter, interest expense swelled to $46.8 million, resulting in a net loss for the period of $13 million vs. a gain of $22.5 million in the fourth quarter of the previous year. Prior to reductions for depreciation/amortization and in-

See **Gains,** *page 81*

Filling gas tanks, scripts

By Al Heller

MINNEAPOLIS — SuperAmerica, which innovated the gas station/convenience store/pharmacy concept last fall, has set plans to expand the format to two more stores this summer and to eight to 12 stores in this market by 1990.

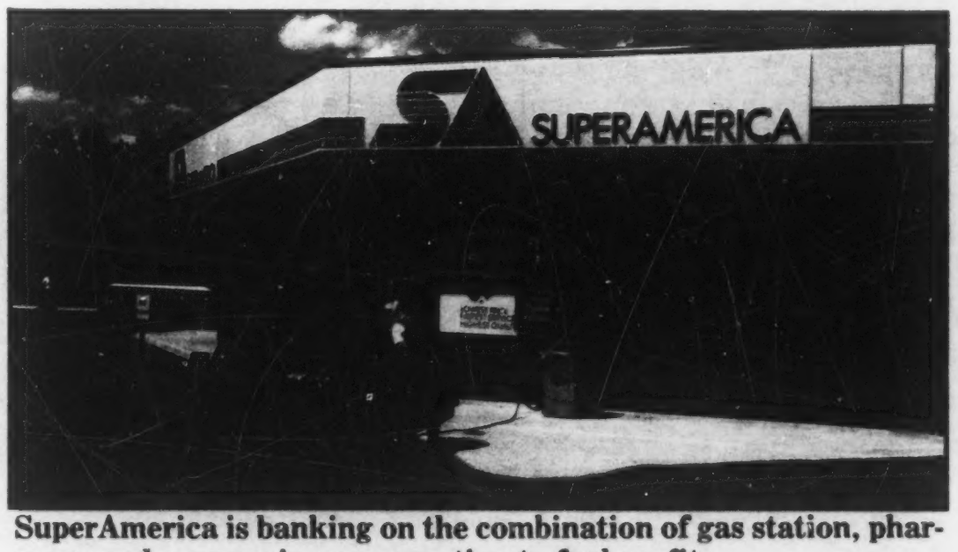
The 385-store chain is attempting to build a pharmacy base in the Twin Cities market, where it operates 65 stores currently and the major Rx competitors are Walgreens, Cub, K mart and Target.

SuperAmerica has faced trade skepticism that the marriage of gas, food and pharmacy could work. But Mike Rasnak, who formerly supervised 42 K mart pharmacies and is now Rx director and H&BA manager at SuperAmerica, has carved out a 3,500-square-foot OTC/H&BA/Rx area just a few steps away from the checkstands to give the area high visibility in the 10,000-square-foot store.

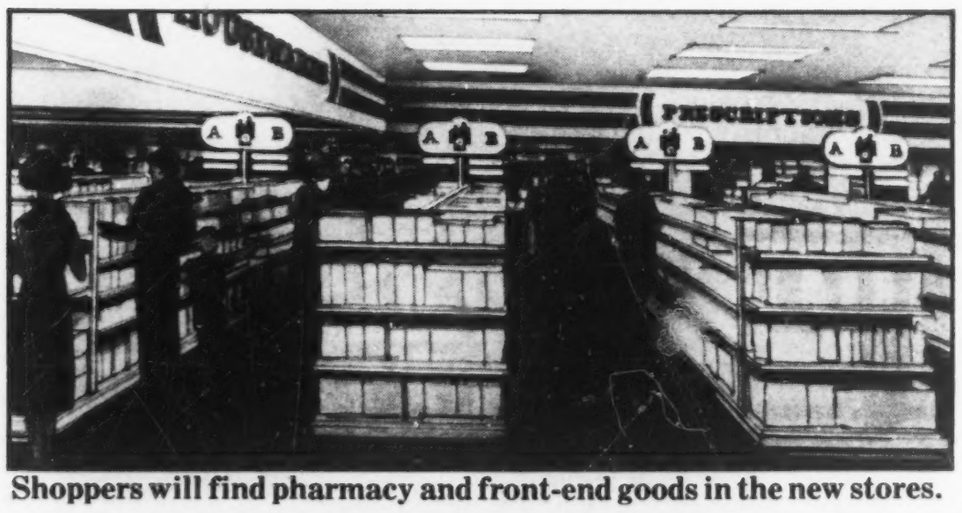
"Thirty years ago, every corner had a grocery, pharmacy and gas station. We've combined them," he said.

He told *Drug Store News* the first phar-

See **Gas,** *page 81*



SuperAmerica is banking on the combination of gas station, pharmacy and grocery in one operation to fuel profits.



Shoppers will find pharmacy and front-end goods in the new stores.

Health Mart, Ben Franklin merge

By James Frederick

DALLAS — A new form of combination store, featuring a merger of franchised drug and variety store operations, will begin popping up in this key market beginning early this fall.

The stores will combine a Health Mart drug store and a Ben Franklin variety store—both of which are franchised operations under the corporate umbrella of FoxMeyer, Inc., the nation's third-largest drug distribution company.

"We're projecting four to six Ben Franklin/Health Mart stores in Dallas/Ft. Worth, beginning this fall," said Jim Minton, senior vp of retail operations for FoxMeyer and Ben Franklin.

"The stores will combine a variety store format with a drug store, which in today's market is not much different from a strong chain drug store operation like Revco or Eckerd," he added. "We think it will work very well, especially with the advantage our local

See **Merge,** *page 81*

LATE NEWS

- FALL RIVER, Mass.—Douglas Drug opened a 15,000-square-foot store here this month, its first in this state. The Rhode Island-based chain of 14 drug stores will open a second unit in Worcester, Mass., later this year.
- NEW YORK—Net income for F.W. Woolworth rose 19% to $37 million in the quarter ended Aug. 1, aided in small part by The Rx Place off-price drug store division. A Woolworth spokesman predicted a three- to four-store increase for the three-unit division in the next 12 months, and said the company was "very pleased with the actual and projected results for Rx Place."
- HAZELWOOD, Mo.—Wal-Mart opened its first St. Louis-area Dot Discount Drug store here Aug. 18, bringing to 10 its total store count for the off-price drug store division. An 11th Dot will open in Kansas City Sept. 15.

Peoples eyes reverse in earnings decline

MONTREAL — Peoples Drug, part of the Imasco Drug Retailing Group formed several months ago, has started to reverse its earnings decline.

Imasco., its parent, reported that the 850-unit drug chain generated operating earnings of $1.4 million (Canadian) for the first quarter ended June 30.

Purdy Crawford, Imasco's president and chief executive officer, said he is confident that Peoples "will register an operating profit for fiscal 1988, and effect a full recovery over the next two years."

Crawford also said that Peoples' "modest profit" for the first quarter of 1988 was "a most encouraging start to our fiscal year."

Indeed, first quarter results were far better than the chain's fourth quarter in fiscal

See **Peoples,** *page 81*

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- MD dispensing triggers national debate
- Gladson: Analgesics planogram
- Arthritis drugs pose problems for researchers
- Landmark indy moves, doubles sales

NEWS IN BRIEF

Vons Cos./Allied Supermarkets merge

EL MONTE, Calif. — Vons Companies completed its merger with Allied Supermarkets recently, giving the 190-grocery store operator based here "greater financial and operating flexibility," according to Roger Stangeland, Vons chairman and cfo.

The merger, in which Vons took on Allied's corporate structure while retaining the Vons name, was accompanied by the sale of Allied's Detroit operations.

While the merger did not increase Vons' store or personnel count, the move did bring the retailer back to a public company status, which it last held in 1985 as a subsidiary of Household Finance Corp. (In January 1986, Vons management took the company private in a leveraged buyout).

The merger changed Vons incorporation to Michigan, and the company will assume Allied's June 30 year-end cycle. However, Vons management will continue to run the company from the El Monte, Calif. location. The transaction brought Vons stockholders $132.1 million in cash, while Allied stockholders retained about 51.5 percent of the new company.

Allied's Detroit operations are now part of a new corporation, Meadondale Foods, organized by Allied's former chairman and president, David Page. Vons said Meadondale paid $40 million in cash for the assets, plus a $6 million subordinated debenture, while assuming approximately $53 million of Allied's liabilities.

According to a Vons spokesman, the retailer now "has the ability to issue stock and raise capital" for acquisitions, while enabling it to have "ready access to public markets." The company said there are no acquisition plans at this time.

Fay's taps James Poole Jr. for treasurer

LIVERPOOL, N.Y. — Fay's Board of Directors has elected James Poole Jr. to the post of treasurer.

Poole will retain his current position of vp-planning, in which he is responsible for financial planning and budgeting. He takes on the additional duties of bank relations and cash management.

Reagan presents McKesson with award

SAN FRANCISCO — President Ronald Reagan has given the McKesson Corp. the highest award in the President's Citation Program for Private Sector Initiatives.

The citation is for McKesson's public service work with students enrolled in San Francisco's Alamo Park High School.

McKesson began the program in 1981 by offering Alamo High students tutoring in basic math and English as well as summer jobs. McKesson was the first company in San Francisco to formalize a partnership with a public school.

Since then, the program has expanded to include one-on-one tutoring by McKesson employees. McKesson provides academic help in several core curriculum and elective subjects and in computer training. McKesson has also donated 14 Apple II computers to the school.

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Vol. 9, No. 17 August 24, 1987

Newman targets educated, well-to-do families who understand his stores' value concept and can write checks for $100 worth of goods when they stock up.

Rising sales convince F & M to boost market concentration

WARREN, Mich. — F & M President Frank Newman told *Drug Store News* he learned something recently from his competitors—though the news won't please them much.

"We can place like stores closer than we'd ever thought before," he said. As the 35-store deep discounter drives toward its goal of 100 stores by 1991, it will be able to hone in on Detroit and Chicago more heavily than originally planned.

In Detroit, where 11 F & M stores compete against Perry's A.L. Price, the F & M roster will expand eventually to 16. Its 12 Chicago-area stores will grow to 17 by the end of 1987, where they'll face off against three or four Phar-Mors, Newman said. In addition, F & M expected at prestime to open its first three Milwaukee stores this month.

What opened Newman's eyes to deeper market concentrations? Year-to-date sales at an Indianapolis F & M soared 49% despite a Drug Emporium opening within a mile. Another F & M showed 21% sales gains despite a Bud's nearby. An F & M across from an A.L. Price is up 17.8%. And a mature F & M in Toledo is growing at a 4% clip despite local competition there.

"The only way a competitor would keep us out of a location is if we are convinced that the only site left is secondary and customers would have to drive past them each time to get to us," Newman said.

He explained his store location strategies while pointing at Detroit and Chicago maps hung on his office wall, which are color-coded to denote income levels. Newman targets educated, well-to-do families who understand his stores' value concept and can write checks for $100 worth of goods when they stock up. "Even when our stores are as convenient to lower income shoppers, it's not worth it to them to make the trip because they have little available cash. They buy just what they need," he said.

F & M offers a lot

"If the shopper's question is to eat or buy toiletries, she's a onesy-twosy, not a stock-up shopper. She won't appreciate what a store like F & M can offer," Newman added.

F & M learned through zip code studies last year that some of its stores attract shoppers from 20 miles away. The chain began conducting more refined consumer exit polls in 1987 to help define the high-income pockets that might support further store expansion, he said.

Uniform OTC dating draws fire

U.S. Pharmacopeial weighs quarterly expiration

By Amy Snider

ROCKVILLE, Md. — The U.S. Pharmacopeial, the standards-making body for the drug industry, is weighing a proposal to streamline inventory control chores by creating a uniform quarterly expiration dating standard for all over-the-counter medicines.

As published in USP's *Pharmacopeial Forum* to promote discussion, the proposal calls for limiting manufacturer expiration dates to four "flag months" (March, June, September and December) for all OTC's with a shelf-life greater than 18 months.

The plan was proposed by a pharmacist in Timonium, Md. who said that such a system would both "help to assure" that outdated products are not sold to consumers and simplify inventory control for retailers and wholesalers.

However, pharmaceutical industry leaders are acting quickly to shoot down these arguments, and USP has already received a slew of chilly responses.

The Proprietary Association blasted the plan, claiming that quarterly dating would reduce the effective shelf life of many OTC products by as much as 60 days and drive up costs to consumers.

"A loss of two months shelf life could seriously impair the ability to ship products to retail outlets, particularly those having a slower turnover (such as) small or remote outlets," according to comments submitted by PA's Manufacturing Controls Committee.

Much costlier

"Additionally, a product having a three-year expiration date could lose 1/18 of its effective life, necessitating an increase in production by that increment to maintain the same sales volume. This would drive costs up proportionately," the Washington, D.C.-based association added.

In echoing PA's concerns, Jerome I. Bodin, associate director of Wallace Laboratories Pharmaceutical Chemistry, predicted that under such a system, many products would have to be discarded one-to-two months before their actual expiration date, while F.R. Brofazi, quality control director for Ciba-Geigy, maintained that a uniform quarterly expiration dating approach would be inconsistent with the computerized dating systems used by many OTC drug manufacturers.

"To change a system which is. . .highly computerized and automated to an arbitrary system solely for the convenience of the retailer and wholesaler does not make sense," he told USP.

This is not the first time pharmaceutical industry leaders have had to tackle suggestions for a uniform expiration dating standard. The American Pharmaceutical Association advanced a similar proposal in the early 60's. Although a few firms at the time did change their policies to meet APhA's suggestion, most industry leaders rejected the plan outright.

Similarly, a decade ago, wholesale drug leaders attempted to persuade industry officials to standardize on a semi-annual dating, a January and July system.

Although a number of OTC drug-makers voluntarily cooperated with the wholesaler plan, Warner-Lambert representative Allan H. Doane told USP that the semi-annual system "didn't work and has been largely abandoned."

TRENDS

Drug chains agree that auto supplies are necessary

Motor oil, antifreeze, chemicals and waxes continue to lead the auto aftermarket departments at many drug stores. Other chains broaden their stance by offering light bulbs, fuses, car vacuums and special accessories.

Whether they devote eight feet or 48 feet, chain merchants seem to agree that auto supplies are necessary to convey a well-rounded and convenient store image.

At Snyder's Drug Stores in Minnesota, for instance, auto departments range from 8 to 12 feet in formats that average only 8,000 square feet. Indeed, some stores are as small as 5,000 square feet.

Buyer Roger Musil emphasizes oils and antifreezes at everyday competitive prices. By avoiding promotions on these items, Snyder doesn't "give the stuff away," he said. Instead, the chain promotes higher grossing items, such as key chains, steering wheel covers, oil drain pans and Armor-All, Musil added.

At Kerr in North Carolina, the strategy is much different. Kerr devotes 16 feet to auto, where oils and antifreezes are the fastest-selling items. The chain stocks six different motor oil brands, and "the everyday markup is good, we make a little money," noted buyer Dan McAlister.

An extensive automotive valley in Osco, Aurora, Colo., is larger and more broadly assorted than most drug chains. Chemical, filters, accessories and appearance items make up the mix.

Typically modest margins on oil and antifreeze reflect their use by retailers as traffic builders.

However, Dart Drug Stores commits strongly to automotive on an everyday basis, with 1,000-square-foot departments that include a broad range of products. The assortment is skewed towards "mostly appearance and safety items," including seat covers, headlights, wiper blades, mini light bulbs and engine chemicals, said assistant vp-merchandising Ray Crampton.

He noted that Dart is upgrading and changing its auto departments in the drug stores. The chain was last affiliated with Trak Auto in 1984, but still has a lot of the automotive specialty chain's product mix. Dart has "had to reestablish what we wanted to do," Crampton said, referring to its shift towards more consumable items.

At Harco, meanwhile, the affiliation between the chain and Carport auto supply stores still exists. The drug stores carry 48 feet of auto supplies. According to buyer Roger Crain, the drug stores stock everything from motor oil to mirrors to battery accessories. Harco is updating its planogram, Crain said, to give stores a consistent and appropriate product mix. Overall changes have been minimal, he said, but some chemicals have been dropped because the selection was too deep.

Similarly, Perry Drug Stores is affiliated with an auto parts chain, the Auto Works division. The Perry drug stores stock either a 16 foot mini-auto department or a 2,500-square-foot section, which is part of the Perry drug store and auto/home centers. The new Perry prototype calls for the mini layout because Auto Works stores are often in the same market, if not right next door to the drug stores, said buyer Bob Heather.

The 16-foot selection in the mini-auto sections enables Perry to carry a limited 60 sku supply of chemicals, plus waxes in the summer and ice scrapers in the winter. About 25% of the section is taken up by four brands of motor oil, Heather noted.

Perry, which promotes automotive products regularly and has a strong image in this department, often finds auto mechanics visiting its drug store aisles, Heather said. In addition to bringing in non-typical customers, Heather said Perry's selection also allows its typical female customer to make further purchases, while bringing in the "male traffic."

Chains test new coolant

Prestone's new advanced formula antifreeze/coolant reached many drug stores' shelves last month, but automotive buyers report it is too early to determine if the product—and its unique guarantee—will bring incremental sales.

The new seven-metal protection formula comes with a one-year guarantee against coolant-related radiator failure, which Prestone will advertise beginning this summer. To take advantage of the guarantee, customers must buy two gallons of the antifreeze and one jug of Prestone's radiator flush—creating multiple sales for retailers.

At Snyder Drug Stores, buyer Roger Musil, who began stocking the new antifreeze/coolant in July, said "the major issue is the price point." He expects it to be priced 2% to 4% higher than the previous formula.

Snyder promotes Peak

Snyder also carries Peak antifreeze, which Musil said it promotes more regularly then Prestone.

The pricing of Prestone's antifreeze in general has prompted several drug chains to carry other brands. More sharply priced Texaco antifreeze outsells Prestone at Harco, according to buyer Roger Crain. At Kerr, buyer Dan McAlister agreed that Texaco sells at a faster clip than Prestone.

McAlister said Texaco's name recognition and lower pricing generates three times the sales of Prestone. "I don't know if the new formula will make the difference," said McAlister of Prestone's new antifreeze.

Prestone a traffic builder

Prestone's new product may fare better at Dart Drug Stores, in the mid-Atlantic region, where the brand is promoted frequently, according to Ray Crampton, assistant vp-merchandising. Besides being a traffic builder, Prestone's antifreeze "also brings auto customers into your store," while creating "a lot of tie-in sales," he noted.

Although Dart currently stocks the old antifreeze formula, it expects to stock the new product in the fall.

Thrifty Drug Stores stocked the new Prestone formula in July, displaying it adjacent to the older formula and selling both for $4.99 a gallon. Positioned on an endcap, at one store location, the antifreeze was promoted with a "special value" sign. The chain also carries Texaco, at $4.39, and a Thrifty private label antifreeze at $4.19.

Automotive performance
(1986)

Product	Turns	Gross margins
Motor oil	5.0	20.6%
Additives	8.5	39.5
Antifreeze/coolant	7.8	19.0
Maintenance products	4.9	38.0
Waxes and polishes	4.5	36.2
Air fresheners	6.7	46.7
Filters	4.5	35.7

Source: Reprinted from *Aftermarket Business*, July 15, 1987

Buyers are mixed over emergency lamp and repair kit

Sylvania's recently introduced Emergency Lamp and Repair Kit—stocking nine miniature auto lights—could find a market in drug stores because it is packaged for gift and impulse purchases.

While North American Phillips had a mail-in offer last year which gave customers a mini-light and fuse package, Sylvania appears to be the first to offer the mini-lighting kit to retailers. General Electric, however, has now followed Sylvania by introducing a six-bulb kit.

Reaction to the new Sylvania product from drug store buyers is mixed. Automotive lights sell at drug stores, however, according to a survey obtained by General Electric, which showed drug and grocery stores accounting for 9.8% of sales.

While Sylvania and G.E. kits offer retailers an impulse purchase item, the product could also work for customers who aren't sure which bulb to buy, pointed out Roger Crain, Harco auto accessory buyer.

Dart, however, will not stock the kit since the chain already inventories a wide selection of individual bulbs, explained Ray Crampton, assistant vice president of merchandise.

Although Dart is not interested in the Sylvania kit, Crampton said the multi-lamp offer could sell well at chains which carry only a limited supply of mini-bulbs.

TRENDS

What's New: Search on all over the world for new

By Richard Lawrence

Three out of every 10 senior U.S. marketers responding to Product Initiatives' annual Innovation Survey in 1987 failed to rate the U.S. among the top three countries for innovations in their category. Japan, West Germany, the United Kingdom, France and Italy are crowding the U.S. in the innovation race.

The tangible reasons for this growing interest in off-shore innovation are sitting on American store shelves. Products such as the nail polishing pen based on Japanese technology for gold and silver inks in felt-tipped markers; aseptic packages for fresher-tasting fruit juices developed in Germany, where energy costs and space limitations have crimped the availability of refrigeration and freezer cabinets; thick chocolate bars, a British product form that came by way of Canada and is targeted at heavy candy-users.

In fact, the list of off-shore inspired ideas grows longer each year. (See chart 1.)

The pace is accelerating.

Richard Lawrence is a partner in Product Initiatives, a new product development company based in Darien, Conn.

Richard Lawrence

Many of the ideas already mentioned were available for years in their country of origin before they were marketed in the U.S. When a U.S. company, Procter & Gamble, expanded its disposable diaper business internationally, it took 11 years to circle the globe. An exercise like that today is likely to take just four to five years.

The worst case scenario for marketers who ignore international developments is that they will be blindsided by new technology. At best, international myopia results in missed opportunities to leapfrog the competition.

For these reasons, we took a look at some of the overseas innovations in drug store products monitored during the last 12 months by Marketing Service Ltd., a new products-reporting firm based in Naples, N. Y.

We sought ideas that could be built on or used to help develop new products in this country, or, more rarely, translated directly to our market because they fit U.S. consumers' interests. We concentrated on opportunity areas: categories which Marketing Intelligence Service's domestic figures show were booming or lagging in new product activity in 1986.

Altogether, there were 1,302 new health and beauty aid introductions in 1986, a 17.5% increase over 1985. We identified nine opportunity categories.

Four of them accounted for a significant proportion of all H&BA introductions, but had either fewer introductions than the year before or a below average increase in introductions. (See chart 2.)

The other five showed well above average gains in introductions. One, vitamins, also accounted for a significant proportion of total H&BA introductions. (See chart 3.)

Hair care

In a previous column, we discussed the difficulty of developing new products in hair care, especially the risks of trying to magnify product-based differences that barely exist. Some recent foreign introductions show how positioning can be used to create competitive differences.

Off-shore innovation

Before 1980
Freeze-dried coffee
Disposable razors
Disposable Lighters
1980 and since
Liquid soap
Deo-colognes
Hair care mousses
Pump dispensers
White chocolate bars
Aspartame

Regular medicated shampoos can be seen as too strong for everyday use. Beecham in the U.K. tackles the problem nicely with a new line extension of its Vosene medicated brand, Vosene Frequent Wash Mildly Medicated Shampoo.

Changes in packaging and form can give "me-too" products a lifestyle advantage by making them more portable, convenient or easy to apply.

Stico by Limoni Guarino e Figli is a natural hair coloring stick which comes in nine shades. Coloring or highlighting your hair becomes as simple as applying lipstick.

The Japanese have adopted the stick form for a hair and scalp tonic. The porous polyester tip of New Leaf G Stick from Milbon dispenses the tonic as it is pressed against the hair and scalp and acts as a massager; a boon for users who don't want, or who are not in a situation to get their hands messy.

Dark and Lovely Signal Neutralizing Conditioning Shampoo from the United Kingdom incorporates an idea that could be adapted and used more broadly than in ethnic hair care. The product is designed as companion to Aqua Tex hair relaxer. The shampoo turns white to signal that all the relaxer has been removed; if there are traces left in the hair, the shampoo remains pink.

Cosmetics

Self-enhancement is a driving force in the use of cosmetics to make the best of one's physical attributes and create a unique personal statement. Marketers supply their products in a wide range of colors and forms to match as far as possible the infinite variety of those personal statements.

Jeanne Gatineau in France goes the logical next step. Their Ecrins De Beaute eye-

products

shadow is a do-it-yourself kit of six colors with a mixing bowl.

Japan's Kanebo company has used the same create-your-own color idea in nail color with its 7 Nail Color Set.

Fragrances

Parfumiers create many new fragrances to further augment existing markets, but their innovations rarely involve totally new markets or new forms and uses.

This is not so with Maelle by Irene Croyeux in France. This fragrance for young children and babies is alcohol-free and has been subjected to dermatological ocular testing. Varieties include honeysuckle, sweet mulberry, mandarin and lemon.

Kaori Mogatari from Japan is a fragrance lasting 3-7 days that can be applied to jewelry, letters, cards, and wrapping. We're intrigued by this new use which has the potential to make objects more distinctly personal, memorable and evocative.

We also spotted a form innovation in fragrances from Italy. Parfumousse by Atkinsons is akin to a deo-cologne since it's designed for all-over body freshness and fragrance. However, it is a light, oil-free mousse that is rubbed into the skin rather than a spray.

Four main H&BA introduction categories

	1986 introductions	Share of total H&BA%	% change
Hair care	206	15.8%	– 2.8%
Skin care	147	11.3	+15.7
Cosmetics	139	10.7	– 4.2
Fragrances	85	6.5	+10.4

Vitamins

U.S. vitamin marketers have demonstrated lots of ingenuity in formulating and positioning new offerings for a staggering variety of user groups, conditions and situations. Overseas marketers don't have much to offer that hasn't been tried here. We did spot Controvite Fe in Australia, a vitamin and iron supplement for women taking oral contraceptives. Also from Australia is Vitamist, a line of vitamins in a rapidly absorbed mouth spray form. Similar products have been marketed in the U.S., but we particulary liked the positioning of some of the Australian products like a vitamin C and zinc version for colds.

Bath products

Bathrooms are becoming a larger and more important feature of American homes. Despite tight schedules, people are spending more time in these home-spas. New products catering to this market for relaxation and well-being are booming.

Communal bathing and its rituals are part of the Japanese culture. Many Japanese bath products claim more therapeutic than cosmetic benefits. One that could be relevant here is Bub, which carbonates the bath water. The action is claimed to stimulate the circulation.

Sun care

Innovation in the U.S. suncare market involves escalating SPF formulations—now into the 30s—and zinc oxides in fashion colors.

Overseas approaches that are different include Jamaica Touch from Switzerland, formulated and positioned for outdoor and artificial tanning; Piz Buin Cacao from Germany, formulated for the thinner layers and different Ph of children's skin, and Roc Total Sunblock (United Kingdom) and Intercept (Japan) that are formulated for protection against UV-A and UV-B rays.

Diet aids

Conventional diet aids reduce or prevent consumption of undesirable calories and foods by altering the metabolism, numbing the taste buds or producing a feeling of fullness.

Five other H&BA introduction categories

	1986 introductions	Share of total H&BA%	% change
Vitamins	159	12.2%	+156.4%
Bath products	49	3.8	+133.3
Sun care	58	4.4	+ 81.2
Diet aids	43	3.3	+ 59.2
Baby products	37	2.8	+ 42.3

A Japanese product, Saltrin, takes a different approach. It allows people concerned about salt to eat all they want. Made from an edible marine plant, Saltrin combines with the sodium in ordinary foods and allows it to pass through the system. The product is sprinkled on food.

Baby products

There's been a renewed interest and activity in the baby market since the baby boomers started producing their own offspring.

Overseas, the Japanese still seem to lead developments in super-absorbent technology. Unicharm's new Mamy Poko and Moony disposabe diapers use a macromolecular absorbent and can hold 800 mls. of liquid. The aptly named Catch Sheet by Nishiki is a diaper liner that forms a gel when wet and reduces the need for diaper changes.

From Germany, for mothers who don't want to chance their sense of touch when it comes to gauging the temperature of the baby's bottle, there's Nuk Baby Bottle Thermometer. It's made of unbreakable glass with a long stem so the thermometer doesn't have to be removed from the bottle to read the scale.

Certainly not all of these overseas ideas are directly translatable to our market. Many would have to be reworked or built on. The key is that they are relevant stimuli for U.S. development.

The failure rate for new products in the market place is eight out of 10. Maybe one in 600 initial ideas makes it to the market. The more relevant ideas that can be generated up front, the more you can mix, match and test to get the variables right. And you can do it inexpensively, at little risk. Scanning the world for ideas is a vital part of this approach.

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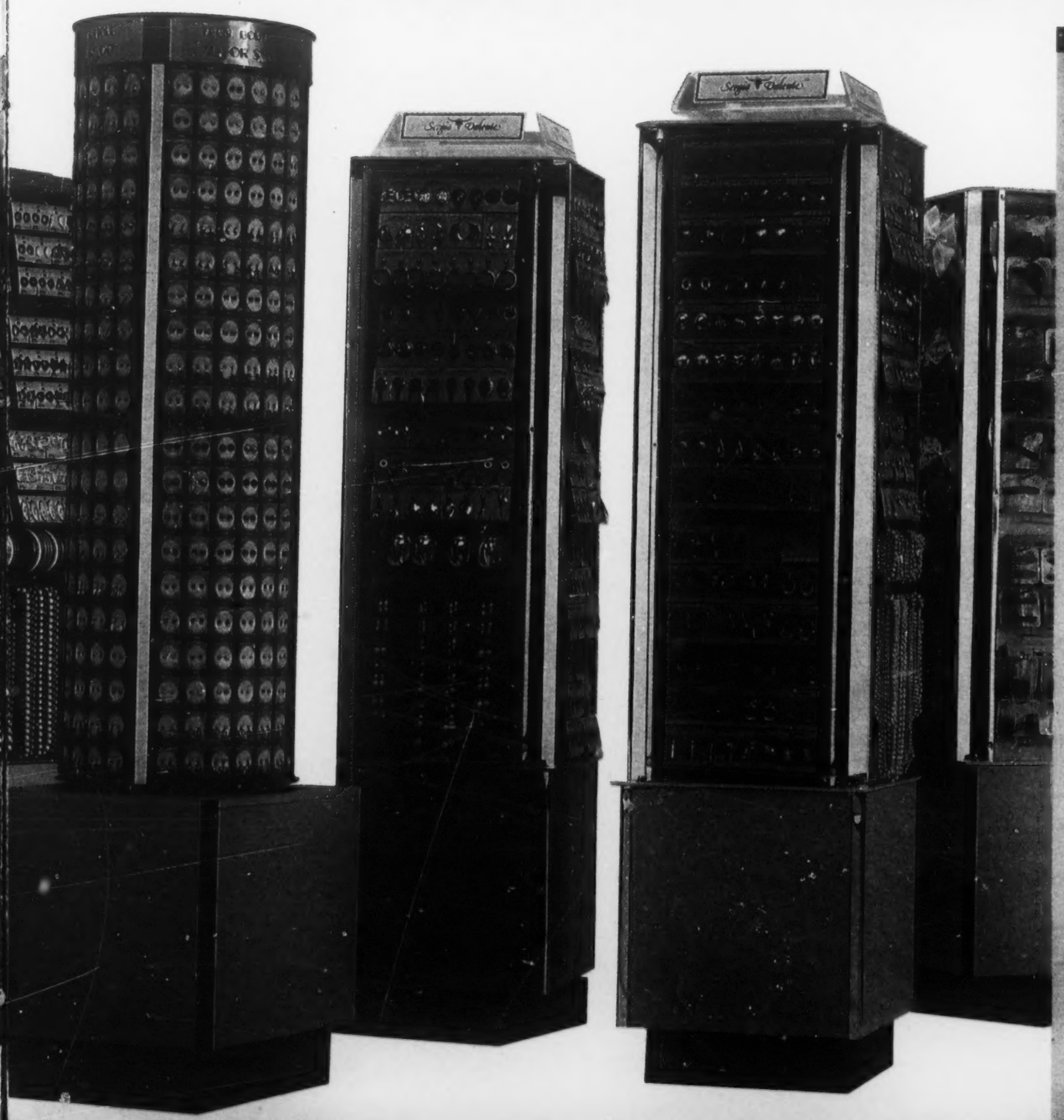

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INSIDE PHARMACY

Arthritis drugs are a problem for researchers

When Suprol was taken off the market a few months ago because of reports that some patients developed flank pain as a side effect, it was the most recent of a string of problems with drugs for arthritis.

The Public Citizen Health Research Group has focused attention on the occurrence of peptic ulcers with Feldene and there was even a scare with the drug, isoxicam, which Warner-Lambert was marketing in Europe for arthritis. Even though Lyell's Syndrome, the skin disease linked to the drug, was traced to a by-product of the manufacturing process, it was still more bad publicity for drugs that fight arthritis.

While rheumatoid arthritis makes those kind of headlines, it rarely makes headlines about medical breakthroughs. Rheumatoid arthritis affects 7 million Americans (see chart), but the most common treatment for this disease is still non-steroidal anti-inflammatory drugs (NSAIDS) which treat the inflammation and pain of arthritis and not the underlying cause.

"Rheumatoid arthritis cripples, it doesn't kill," said Roland Moskowitz, professor of medicine at Case Western Reserve University in Cleveland, explaining why drug research in this area tends to be less aggressive. "You're less willing to take higher risks with innovative drugs than with AIDS which is 100% fatal, or with cancer."

Disease-modifying drugs

In the future, physicians treating rheumatoid arthritis will increasingly turn to drugs that are disease-modifying, that is, that slow the degenerative process of the disease. Examples of drugs believed to be disease-modifying and being prescribed now are Cuprimine (Penicillamine), Methotrexate (Sodium Parenteral), Azulfidine (sulfasalazine), Plaquenil (hydroxychloroquine sulfate), Sandimmune (cyclosporine), Cytoxan (cyclophosphamide) and Imuran (Azathioprine). Gold, a well-respected treatment for arthritis in injectable form, in recent years has become available in oral form (Smith Kline & French's Ridaura (auranofin)) .

One of the major trends in recent years has been the more frequent use of Methotrexate, according to Dr. Moskowitz, who describes results as very good. He adds that liver fibrosis as a complication has not been a major problem. Dr. Moskowitz said that Imuran is "less attractive because it suppresses the marrow" and many of the other drugs are too toxic or too investigational. Another major trend has been the use of combinations of second-line drugs, much like in cancer therapy. Methotrexate may be combined with gold, Imuran, or other disease-modifying drugs.

Lederle, the manufacturer of Methotrexate, a drug traditionally used for cancer and leukemia, is now awaiting final FDA approval for the use of Methotrexate for arthritis. More than half of Methotrexate tablets are now used for arthritis. The drug received FDA approval for use in severe cases of psoriasis in 1981, according to Jeff Hoyak, spokesman for Lederle. Dosage for arthritis is much lower than for cancer and leukemia. Arthritis patients take 5-15mg of Methotrexate once a week. Some doctors have patients take it in a single dose or in a few doses every 12 hours. According to the literature, side effects at that dosage are relatively mild gastrointestinal effects and elevated liver enzyme levels, which may indicate liver damage but are often transient. Patient selection is important and those with existing liver and kidney problems or heavy drinkers should not be placed on the drug.

U.S. arthritis population

Type of arthritis	Number of patients
Osteoarthritis	16 million
Rheumatoid arthritis	7 million
Ankylosing spondylitis	2.5 million
Gout	1.8 million
Lupus	100,000

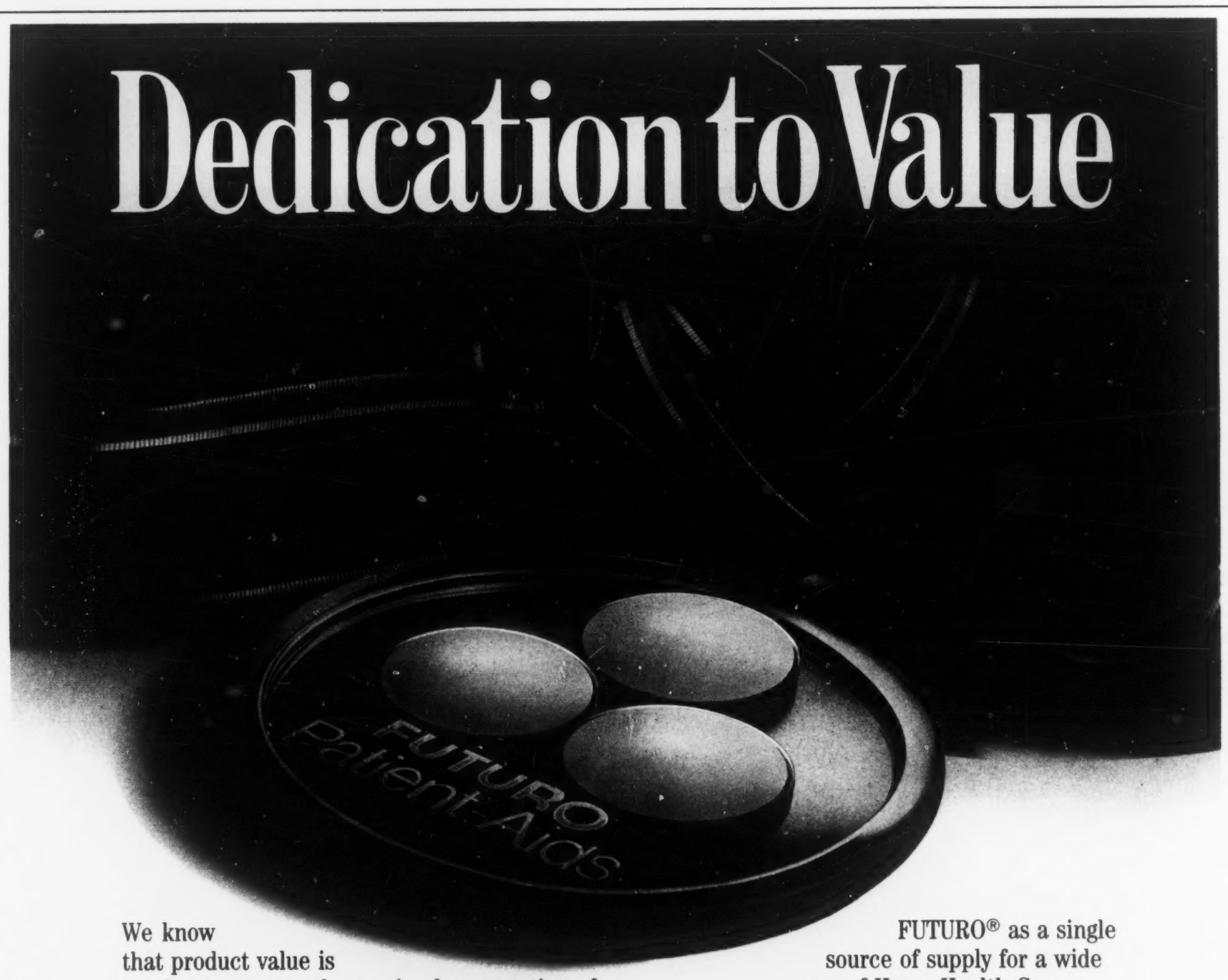
Source: National Arthritis Foundation, 1987 data

Daniel Furst, clinical professor of medicine and rheumatology at the University of Medicine and Dentistry of New Jersey, believes that liver fibrosis may be more of a problem in the future; the drug has only been in general use for arthritis in the last three to four years.

Dr. Furst said he believes the reason there have not been more breakthroughs in arthritis treatment is that while "there have been excellent animal models (of arthritis) for aspirin-like drugs like NSAIDS, there are none for the more disease-modifying drugs."

Some of the promising areas for arthritis, Dr. Furst said,

Continued from page IP16



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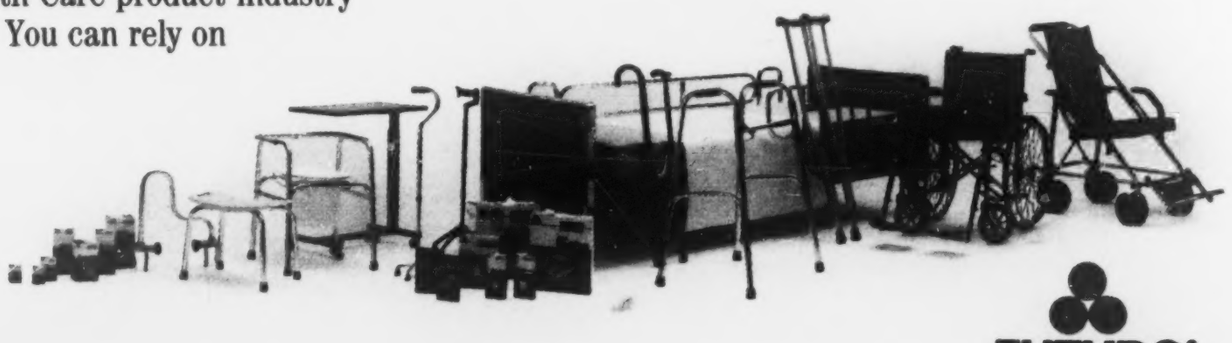

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INSIDE PHARMACY

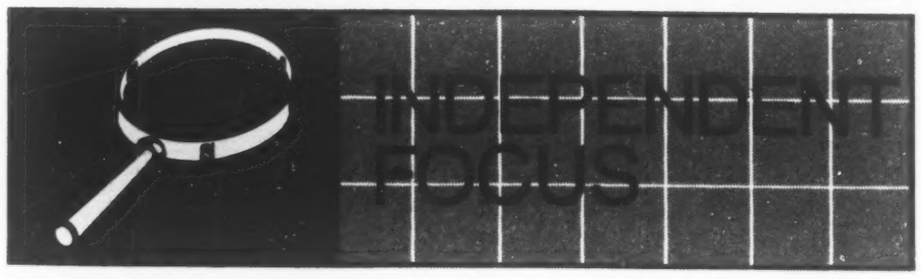
Clinical notebook

Landmark drug unit moves, doubles volume

CALDWELL, Ohio — Jim Braden has big shoes to fill here, those of his father-in-law, Bill Gillespie.

Braden married Gillespie's daughter, Di Anna, after they met at Ohio Northern University. He and his wife now run Gillespie's drug store, which had been a landmark on Caldwell's town square since the Depression. Gillespie's has changed in almost every way but in its name, however, since the Bradens moved from the town square two years ago.

But Di Anna still likes to talk about her father: How he closed his drug store for two years to join the Navy after Pearl Harbor was bombed on Dec. 7, 1941, and how he graduated from pharmacy school when he was 48, the same year Di Anna graduated from high school. Some people in Caldwell thought he was too old to be going to pharmacy school, especially as he already owned a drug store; Di Anna is glad he proved them wrong.



The Bradens spent $250,000 renovating an auto dealership building on the main road out of town to get more space.

The Bradens moved to a 6,000-square-foot space on the main road going out of town two years ago, spending $250,000 to renovate an auto dealer's building. Jim Braden said that while the old location had sentimental value, he and his wife decided to make the move for more parking and to increase the amount of space available for front-end merchandise.

Caldwell has a population of only 2,000, and the Bradens saw an opportunity to become a hub for general merchandise. They report that they have succeeded. Last year, Jim Braden said, the store topped $1 million in sales for the first time, about double the sales of the old store.

Big card business

Gillespie's is a popular place to shop for a wedding gift, and the store devotes 2,500 square feet to greeting cards. "Because of our selection, we get 95% of the card business," Jim Braden said.

Although Caldwell has a small population, Gillespie's draws customers from a base of about 11,000 from other towns in Noble County. The local economy has been depressed in recent years, but the Bradens report that while the area has lagged behind other areas in economic recovery, new industries are beginning to move in, improving the employment picture.

Di Anna has found that one of the biggest traffic builders for Gillespie's is the lowest-priced soda in town. She has priced 12-can cases at $2.99, with a penny profit. The grocery stores are "mad at us," she said, "but I tell them, 'If you drop your drug line, I'll get rid of my soda pop.' " She's been selling up to 200 cases per week.

Another draw is Gillespie's prerecorded video department. Through the Family Independent Pharmacy (FIP) program and its distributor, Kauffman-Lattimer in Columbus, Ohio, part of Alco Health Services, Gillespie's gets a monthly shipment of videos to update their selection. The Bradens rent videos for $2 each and $1 for a second tape on weekdays, and $3 each and $2 for a second tape on weekends. They also have five video recorders to rent.

For Mother's Day, also through FIP, Gillespie's had a drawing for a dozen roses and a free video every week for a year; for Father's Day, the prize was a fishing pole and a free video every week.

Gillespie's runs monthly sales with FIP circulars and special merchandise. For its small-town customers, who have a limited selection of stores in their area, Gillespie's takes orders on a gift and appliance catalog through FIP.

Jim Braden fills more than 40 prescriptions a day for an osteopath who rents space next to the store.

Customers pick up their copy of the catalog at the store once a year, and Gillespie's receives the item 24 hours after the order is placed.

Home health care business

Kauffman-Lattimer will also deliver a selection of home health care items 24 hours after ordering, which allows Gillespie's to offer home health care merchandise without devoting a lot of floor space to it. Di Anna said Gillespie's has been building up home health care since the move and that she would consider expanding someday to have a separate home health care center.

One of the town's three doctors leases space from the Bradens for his office next door, and Jim says that Gillespie's gets up to 40 prescriptions per day from his patients. Di Anna said that efforts are under way to bring another doctor to the town.

Jim said Gillespie's fills about 135 prescriptions daily. His business is currently 60% front end and 40% prescription, the reverse of what it was before the move.

About 8% of his prescription business comes from third party and 30% from the state Medicaid program. The Bradens compete with another pharmacist who is on the town square and with many of the Noble County doctors, who have traditionally dispensed many of their own prescriptions.

It is not uncommon for the Bradens, who haven't had a vacation in four years, to work six or seven days per week. Gillespie's is open from 8 a.m. to 8 p.m. Monday through Friday, from 8 a.m. to 5 p.m. Saturday, and from 9 a.m. to 3 p.m. Sunday.

The Bradens say there is a pharmacist shortage in southeastern Ohio, but relief for them is on the way: Their son has just completed pharmacy school and is expected to pass the Ohio boards in August. Until now, the Bradens have used interns and pharmacy technicians for help behind the pharmacy counter.

When their son joins them, they plan to take something long overdue—a vacation.

No miracle drugs seen on horizon for arthritis

Continued from page IP13

are diet modification and fish oil, which may interfere with the breakdown of arachidonic acid, found in many joint membranes, and which is a precursor of prostagalandins, believed to be a key player in arthritic inflammation. The amount of fish oil that would have a therapeutic effect, at this moment, appears to be "huge," however, said Dr. Furst.

Work is also being done with monoclonal antibodies and with interferon in the treatment of arthritis, but while Dr. First believes interferon is only "moderately effective and quite toxic," he is optimistic about the possibilities for monoclonal antibodies. Dr. Furst also is optimistic about the potential of substituted sugars, Vitamin A relatives and immunosuppressors for the treatment of arthritis.

While there may be no "miracle drugs" on the horizon, Dr. Furst believes researchers are finding out how "to target our drugs better." For instance, doctors may be able to target drugs to macrophages or T-suppressor cells only; T-suppressor cells are believed to be very important in rheumatoid arthritis.

A drug from a small Connecticut company, Greenwich Pharmaceuticals, now in clinical trials, is stimulating interest among rheumatologists. Therafectin (amiprilose HCl) is reported to have significant effect on decreasing joint pain and swelling. Dr. Furst said it is not understood how this sugar derivative may work in the treatment of rheumatoid arthritis. Another promising drug, he said, is Ebselen, developed by a German company. A peroxidase which mimics the peroxidase in the joint membranes, Ebselen might work by breaking down inflammatory products before they can do any harm.

For news about recent federal legislation extending Medicare coverage to outpatient drugs, see P. IP40

Antiarthritics
U.S. retail pharmacy sales
1986 vs. 1985

Product	Share '85	Share '86	Share % change	1986 sales $ (mil.)	1986 sales % change
Naprosyn	22	25	+3	260.1	+ 12
Feldene	23	20	−3	210.8	− 12
Clinoril	12	12	—	131.0	+ 1
Motrin	11	12	+1	123.6	+ 3
Indocin	10	8	−2	81.3	− 24
Nalfon	4	4	—	42.9	+ 2
Tolectin	5	4	−1	42.8	− 13
Meclomen	3	3	—	31.7	+ 1
Rufen	5	2	−3	24.5	− 48
Orudis	0	1	+1	14.5	—
Ridaura	0	1	+1	9.0	+149

Source: Pharmaceutical Data Services, 1987 Wall Street Meeting

INSIDE PHARMACY

Ibuprofen sparks analgesics market

The market for analgesics has enjoyed strong and steady sales gains over the past two years, due in large part to the success of over-the-counter ibuprofen products and low-cost private label alternatives. Much of the category's gains, however, have been restricted to a few key brands.

The approval of ibuprofen-based pain relievers for nonprescription sale two years ago has been the key to the category's strong continued growth, pegged by A.C. Nielsen at 10% over a recent 12-month period. Strong consumer acceptance of Tylenol caplets, a few other key brands and private label alternatives have also sparked the sales boom.

According to Nielsen research, combined sales of OTC pain relievers grew to $1.88 billion in the 12 months ended February 1987, compared with $1.71 billion the previous year. Retailers see a continuation of that trend.

Private labels sell

"There will always be a big market for pain relievers, but most of the growth has been in Advil, Nuprin and a few other products," noted one chain drug buyer. "We've also done extremely well with our private label."

Consumers have taken quickly to the new generation of powerful, ibuprofen-based OTC pain relievers, which until recently were available only by prescription. Of the flood of ibuprofen formulas now on the market, however, Whitehall Labs' Advil and Bristol-Myers' Nuprin seem to have locked up much of the demand.

"Advil is the single hottest analgesic I stock right now," said Guy DeLuca, OTC and H&BA buyer for Douglas Drug, which is based in North Providence, R.I. "Nuprin has also had a definite revival. With the rest of the ibuprofen brands, there's not as much success as people expected, however."

Advil over Nuprin

"Advil has been doing very well," agreed George Tack, drug buyer for Thayer Pharmacies in Stoughton, Mass. "Nuprin is also doing well, but it's probably only selling about one-third to one-half as well as Advil. I think it could be related to advertising."

DeLuca predicted that the success of the ibuprofen segment of the market would eventually lead to a broad shift in the analgesics market. "I think we're moving toward an even three-way split in the market, with a third each in sales going to aspirin, acetomenophen and ibuprofen," he said. "Almost all the expansion seems to be in ibuprofen."

McNeil Lab's Tylenol, however, remains a powerful leader in the analgesic market after rebounding successfully from product-tampering scares earlier in the decade.

Tylenol remains leader

According to a *Drug Store News* survey of top OTC and H&BA products, Tylenol Extra-Strength Caplets remain No. 1 in the nation's chain drug stores in sales volume, profits and unit sales. The non-aspirin product also remains the leader in children's analgesics.

"Tylenol's growth has kind of leveled off against all the competition from ibuprofen, but it's still our biggest seller when you combine all its sku's," noted Tack.

Tylenol overcame a devastating blow during the tampering scare when it shifted away from capsules and pioneered the use of caplets, thus regaining its market lead. Other brands have followed its move into caplets with far less success, leading to a proliferation of sku's and a squeeze on shelf space as caplets and tablets under the same brand names compete for space.

Customers not responding

"There has been a flood of caplets from a lot of the brands since everyone saw how well Tylenol has done, and I don't think it has done anything at all for the category," said one buyer. "I find it ludicrous, since tablets with the same dosage strengths are smaller and a lot easier to swallow. It's just cluttering up the category, and with the exception of Tylenol, customers are just not responding. It's the same thing that happened with capsules even before the tampering problems."

According to the same buyer, analgesic formulas for arthritis pain are also on the way down. "Obviously, people suffering from arthritis are taking something, but I think the ibuprofen products are absorbing a lot of that business," he said.

The split in the analgesic market between non-aspirin and aspirin formulas, however, also reflects widespread publicity over some of the problems associated with aspirin over the past several years.

Success of aspirins

Nevertheless, the recent approval by the FDA of new indications for aspirin for heart attack victims and others with unstable angina has bolstered sales of Bayer and other aspirin formulas. Bayer, which submitted original data on the success of aspirin in reducing the risk of heart attacks, has been the strongest proponent of the new findings.

"If I was the maker of Bayer, I'd be devoting a huge ad campaign to this," noted DeLuca. "I haven't seen any impact on their sales yet since the FDA's finding."

One other bright spot in analgesics is the demand for private label brands, which customers seem to trust as equal in quality and efficacy despite their lower price. Said one buyer: "Item for item, private label aspirin has been outselling the branded products in our stores for years, at least in units. The price difference is important."

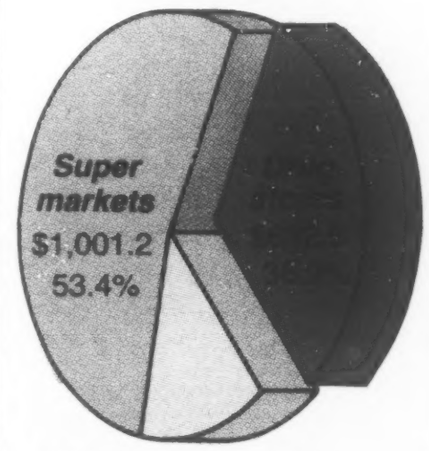
Business goes well

Thayer's Tack agreed. "We move a lot of our own private label products, but it doesn't seem to be hurting sales of our branded pain relievers. I don't know where that business is coming from, but it's doing very well."

In terms of profitability, analgesics remain a highly price-competitive market, say retailers. "Some of the hot sellers often generate gross margins that are down in the teens," said DeLuca. "It's very competitive between stores."

OTC analgesic sales

Dollar volume (in millions) and market share



12 months ended 2/87
Source: A.C. Nielsen

Store type	Share change from prior year	% increase over prior year
Supermarkets	0.4%	10.8%
Mass merchandisers	−0.1	8.6
Total	—	10.0

Retailers also complain about the proliferation of products. "I can't see why a company needs to put out 18 different sizes of the same brand," noted one buyer. "It's too confusing."

Nevertheless, merchandisers don't want to pare shelf offerings in analgesics and risk offending loyal customers.

"Even if I only sell a particular brand of pain reliever to a few customers, they come into my store expecting to find it," noted one buyer. "If I no longer carry it, I'm going to lose that customer. It's not worth it to save a little shelf space."

Hook's

Standard Drug

Page Drug

Thrifty

Dart Drug

Snyder Drug

Walgreens

9/10 BC5150-2

Store Management Training:
How to fire an employee—p. 20

Whole

00269340
KEVIN KENDRICK
CONGRESSIONAL INFO SVC IGF
4520 EAST WEST HWY STE 800
BESTHESDA MD 20814
DR

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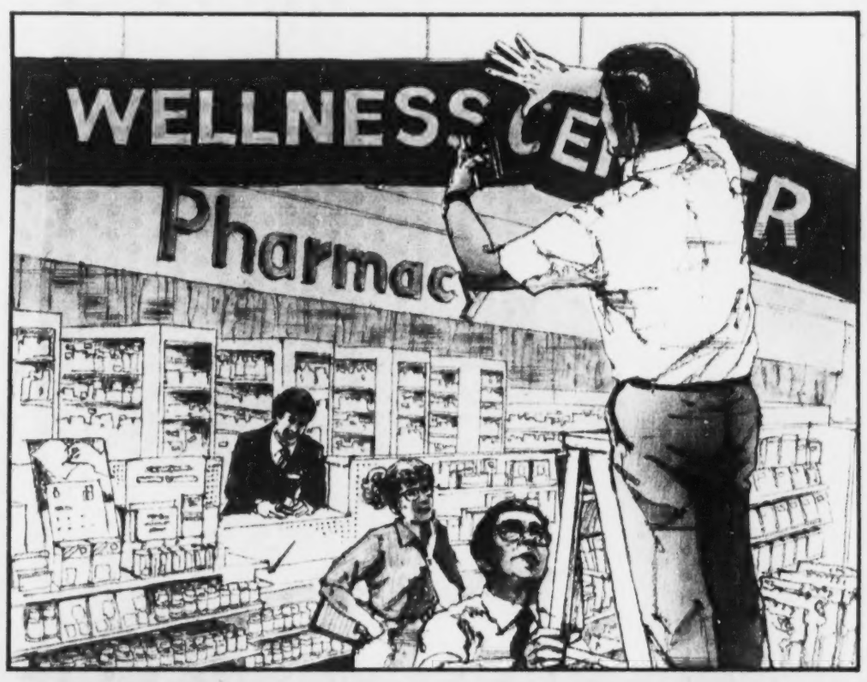
DRUG STORE NEWS

Vol. 9/No. 18 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. September 14, 1987



Wellness revolution

Something new is happening in drug stores these days. Healthcare has a new partner in *well*care. *Drug Store News* examines the wellness trend...from market research to merchandising, home diagnostics to in-store health screening. What does wellness hold for the future? Coverage starts on page **77**

Revco divesting Carls

Sale to trim debt

By Jim Frederick

ROME, N.Y.—In a long-expected move, Revco D.S. has struck a deal to sell its Carls Drug Co. subsidiary to a group of investors, including senior members of Carls' management team. The agreement, announced in mid-August, marks the first time since 1980 that the upstate New York drug chain faces the future as an independent company.

Revco Executive vp Marc Dworkin, who has served as Carls' president since soon after Revco bought the 45-unit drug chain two years ago, will not take part in the leveraged buyout. "Absolutely not," he told *Drug Store News*, adding that he intends to remain with Revco in his current position.

Revco signed a letter of intent for the sale of Carls after searching for a buyer for the chain for several months. Salomon Brothers, which was instrumental in lining up financing for a management-led LBO of Revco itself last December, acted as Revco's financial adviser and broker in the sale of Carls.

The purchase price was not disclosed. Revco paid $35 million for Carls when it bought the chain from Pneumo Corp., a division of IC Industries, in July 1985, outbidding several other drug chains. However, Carls had been on the selling block for several months, and some investment analysts had expressed doubt that Revco would easily recoup its original purchase price in today's market, which has been saturated with available drug stores as prospective buyers—like Rite Aid and Walgreens—have turned from acquisitions to consolidation to digest previous purchases.

Tod Bogan: No major changes

Revco has also been under intense, self-imposed pres-

See **Revco,** *page 97*

Small stores in Pay 'n Save's future

SEATTLE—The changes instituted by the new Pay 'n Save regime are not over yet, as evidenced by the company's latest announcement that it plans to roll out a Pay 'n Save Limited concept.

Designed to take advantage of small, convenient locations, the Limited stores will extend Pay 'n Save's coverage in established markets, according to Haven Ready, senior vp-operations and stores, and a member of the chain's new management under ceo Gerald Nathanson.

Ready said the addition of the word "Limited" will allow Pay 'n Save to take advantage of its well-known name—much the same as Thrifty has done with its Jr. stores.

Announcement of the Limited format came as the company reported its plans to acquire six G.O. Guy drug stores from Renton, Wash.-based Bonanza Stores. The acquisition price was not disclosed by Pay 'n Save, but the company said the sale is expected to close at the end of this month.

The G.O. Guy stores—ranging in size from 2,400 square feet to 8,000 square feet—will probably be switched to the Pay 'n Save Limited name by October, Ready said. Of the six, three are located in downtown Seattle, while the remaining sites

See **Pay 'n Save,** *page 97*

Kare Rx expands under National

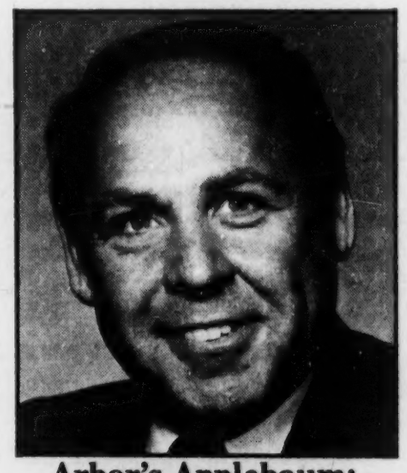
ST. LOUIS — National Supermarkets, locked in a struggle for market leadership here with rival food chain Schnuck's, is rapidly expanding its commitment to pharmacy since buying 26 Kroger supermarkets here last fall, including 10 with pharmacies.

Under its Kare Pharmacies logo, National now operates prescription centers in 31 of its 61 superstores, and will add another 10 to 15 in the next year in new and remodeled units.

"All our new stores will have Kare pharmacies from now on," said Jerry Callahan, director of pharmacy operations. "There is more profit for us in H&BA and general merchandise than in food, and we want to use our pharmacies themselves as profit centers rather than just traffic-builders."

Apparently, Kare pharmacies are already meeting both

See **Kare,** *page 97*



Arbor's Applebaum: Loving Michigan

Arbor: Goodbye Carolinas

TROY, Mich.—Arbor Drugs has pulled out of North and South Carolina, selling three of its four stores in those states to Eckerd Drug and subleasing the fourth unit to a non-drug operation.

The unexpected move, announced in mid-August, marked the end of a two-year attempt by Arbor to operate stores far from its market base in greater Detroit and southeastern Michigan.

The pullback also signals a growing belief among Arbor managers in the renewed vitality of

See **Arbor,** *page 97*

LATE NEWS

- SACRAMENTO, Calif.—Price Rite Stores, a newly-formed company, announced it will open stores which blend the membership wholesale club concept with that of traditional deep discounting. The first store is set to open here in December.

- SALT LAKE CITY—American Stores, parent company of Osco Drugs, reported net income rose 10.6% to $36.5 million, or 98¢ a share, in the second quarter ended Aug. 1. Sales remained essentially flat at $3.54 billion.

- LIVERPOOL, N.Y. — Fay's earnings for the second quarter ended July 3l rose 9.6% to $1.2 million, or 9¢ a share, from a year earlier. Sales were up 14% to $124.4 million. Six-month earnings were $1.3 million on sales of $235 million vs. $3,000 and $216 million a year ago.

Douglas slates opening of unique closeout store

NORTH PROVIDENCE, R.I.—Markdowns are inevitable in merchandising. But Douglas Drug, a chain of 14 upscale super drug stores, will soon test a unique way to eliminate the damage they can inflict on store image.

It will open The Saturday Store in October or January, a 3,500-square-foot closeout vehicle to "keep stores cleaner of merchandise that has almost no value," Patrick McCafferty, director of merchandising, told *Drug Store News*.

This radical approach won't salvage extra profits from the goods, but will improve the looks of Douglas's mainstream stores. Chain President John Haronian "is image-conscious. It bothers him when he has a mistake at retail. So he developed this idea," McCafferty said.

The closeout store, slated to

See **Douglas,** *page 97*

NEWS IN BRIEF

Wil-Car to build new distribution center

PORTSMOUTH, Ohio—Wil-Car Enterprises, owner of the Wil-Car H&BA and sundry store chain, has announced plans for a new 193,000-square-foot distribution center that will position it for expanding its wholesale and retail businesses. Construction and design contracts have been awarded.

The unit is planned for an 18-acre site near Portsmouth, and will triple Wil-Car's dc volume. It will allow improved service to the 58 Wil-Car corporately-owned and franchised stores, and for Wil-Car's wholesale operations, which supply the chain and about 1,200 other independent retail stores. The new facility positions Wil-Car to add 25 stores in the next two years.

The unit, which will include 14,000 square feet of offices, replaces a 360,000-square-foot dc located in a five-story building in downtown Portsmouth. Scheduled to open in April, it will feature computerized handling equipment and management procedures.

Threats force Advil off Chicago shelves

CHICAGO—Osco Drug has pulled all packages of Advil from the shelves of its Chicago-area drug stores following tampering threats made by an anomymous caller August 21.

The precautionary removal was touched off by two calls to an Osco store on North Pueblo Avenue in Chicago, in which a male caller warned that he had tampered with Advil packages in about 20 Osco drug stores. The man said the tamperings would continue until a cure for AIDS was discovered.

A spokesperson for the FDA's office of consumer affairs noted that the threats appeared to be a hoax, but the FBI was notified and Advil product from the stores was being examined for signs of tampering. Like other OTC medications, Advil packages are safety-sealed in plastic.

Osco President Dick George said such incidents were not uncommon, but he said the company was taking the threats seriously. "This kind of threat happens fairly often, but you have to be careful," he noted. "People are checking the packages now, and when we put Advil back on our shelves, it'll be different product."

OCP to gain majority share of Ketchum

NORWALK, Conn.—Ketchum & Co., the tenth-largest drug wholesaler in the United States, is selling a majority ownership share to Europe's largest drug wholesaler. The sale will give Ketchum capital and technical expertise it will use to help rebuild its bottom line, Ketchum President Robert Edinger told *Drug Store News*.

According to Ketchum, Office Commercial Pharmaceutique of Paris, France, will gain a majority position by buying 417,576 common shares of Ketchum for $10 a share from InterWest Corp., a Dallas real estate developer.

OCP, in addition, has a letter of intent to buy an additional 436,900 authorized shares, also at $10 a share. It would then control 854,476 of the company's 1.7 million outstanding shares—just over 50%—and will have a majority on its 10-seat board of directors.

The company, jointly with Ketchum's bank, will also arrange a $4 million loan for working capital.

OCP, with $2.7 billion in sales last year, had 38% of the French drug market, and supplies 17,000 of France's 22,000 drug stores.

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Vol. 9, No. 18 September 14, 1987

Eckerd bets Florida lottery will aid convenience image

Chain applies for licenses for all 497 stores in the state

CLEARWATER, Fla.—Eckerd is betting on Florida's lottery to build traffic and boost its convenience image. To date, it is the only major drug chain to apply to sell tickets in the upcoming games.

In June, Florida became the first state in the Southeast to approve plans for a statewide lottery.

Looking to sell lottery tickets for the first time, Eckerd has applied for licenses for each of its 497 stores in the state, according to Michael Zagorac, vp-public affairs.

'Tremendous interest'

"There seems to be a tremendous amount of interest out there by our customers," said Zagorac. "The chain feels ticket sales will build traffic and support its convenience image."

Twenty-six states plus the District of Columbia now have lotteries, according to the North American Association of State and Provencial Lotteries.

Drug chains that sell lottery tickets have had mixed success. Lotteries' main contribution is in traffic building, although income from the state based on sales and customers' winnings is also a factor. But some chains feel the aggravation of selling the tickets has outweighed any traffic-growth benefits.

Observers expect that most or all retail applicants in Florida will be licensed to dispense instant winner tickets, which go on sale in January. But stores selling Lotto tickets that require computer terminals will be licensed individually, with the state licensing stores by neighborhood based on factors such as traffic and sales volume. Lotto sales are scheduled to start next June.

Walgreens won't apply for its Florida units, since it doesn't participate in lotteries in any state. "We feel this is not our niche. We would prefer to concentrate on drug store and health-related items," a spokesperson said.

Since Florida's lottery rules have yet to be written, retailers aren't yet under the gun to apply. Rite Aid, now converting the SupeRx and Gray Drug stores it bought last year, has not looked closely at Florida's lottery, said Rite Aid Chairman Alex Grass.

Traffic-building ability

Grass said that the game's traffic-building ability has made it worthwhile to sell tickets in selected Rite Aid stores in New York and Pennsylvania.

A spokesman at Publix supermarkets said: "We anticipate we will probably sell tickets where we are allowed to."

But Florida's convenience stores including 7-Eleven, Magic Market and Circle K have shown more interest than supermarkets so far, and will likely apply for all their stores, said Andy Williams, vp of the Florida Retail Grocers Association.

On the West Coast, Longs Drug is among chains with second thoughts.

Trouble out west

It feels the two-year-old California lottery is fizzling, and customer participation in its stores is down 70 percent from when the game started, a chain spokesperson said.

"There was a lot of hype when it got started. But now it is dying of its own weight," said the spokesperson.

Longs initially required all stores to sell instant scratch-off tickets. When the Lotto electronic game started in September 1986, stores were given the option to participate in either game.

"We provided them a way to opt out when sales were sufficiently small so as to indicate a lack of consumer interest," he said.

Ten withdrew from the instant game, leaving 175 stores still offering it. But only five signed for the Lotto game, the spokesman said.

Benefits for Perry

In contrast, Perry Drug Stores has benefited from lotteries in Michigan and Illinois—states where all its stores have the instant lottery game, and about half the Lotto game, a spokesman said.

"We'd like to have it in all our stores because they're good traffic builders," he said.

Separate entrances, signs:

Thrifty Jr., Giant co-exist nicely in four Southern Calif. locations

By Pamela Krein

LOS ANGELES—Thrifty Jr. stores are now installed and operating in four Ralphs Grocery Co.'s Giant superstores in southern California.

Although Giant and Thrifty Jr. are under the same roof, separate exterior entrances and signs give the two chains their own identities. The marriage, however, allows Thrifty to extend its market coverage, while enabling Giant to offer a one-stop shopping concept.

Space reviewed normally

For Thrifty, the decision to lease the space from Ralph's did not contain "any magic about it;" rather, the sites were reviewed just like any other potential locations, explained Bill Henry, senior vice president of real estate for the drug chain.

Henry said Thrifty "looked at the present store coverage," and evaluated whether a Giant location gave the drug chain a chance to in-fill a market.

The Giant/Jr. locations—at 4,000 square feet of selling space—are slightly smaller than the current Jr. average, Henry said. However, Jr. stores do range in size from 3,000 to 11,000 square feet.

The Giant locales represent some of the first Jr. stores to be non-acquisition sites, Henry noted. Prior to these stores, Thrifty Jrs. were made up primarily of 31 former Drug King, Guild Drug and Guy's Drug stores—all acquired last year.

Coming into 1987, Thrifty had 32 Jr. stores in operation. With the opening of the Giant locations, the company said it now has more than 40 Jr. units. In 1988, the chain said it anticipates opening 28 Jr. stores.

The four Jr. stores have all opened this summer, two in July, one in August and one early in September. A fifth unit will open before the end of the month. Thrifty has no current plans to open additional Jr. stores at the grocery chain.

Number of stores

All told, Ralphs has 15 Giant superstores in southern California. In non-Thrifty Jr. locations, Giants are paired with independent drug stores that lease space.

Ralphs included drug stores within the Giants in order to "create additional traffic for us and produce additional revenues," explained Alfred Marasca, executive vice president of marketing for the Compton, Calif.-based grocery chain.

The average Giant site is about 100,000 square feet, but Marasca said the company requires only about 70,000 square feet for its superstores. The remaining space has been turned over to a third party, which handles the lease agreements. In addition to drug stores, the Giant also contains other retailers, such as jewelry stores, yogurt shops, video rental centers and eye care stores.

While many of these can only be entered from within the Giant stores, the Thrifty Jrs. do not have an interior entrance.

Since Ralphs does not offer pharmacies in any of its approximately 130 grocery stores, Marasca said it was necessary to bring in a chain or independent drug store for the desired retail mix.

TRENDS

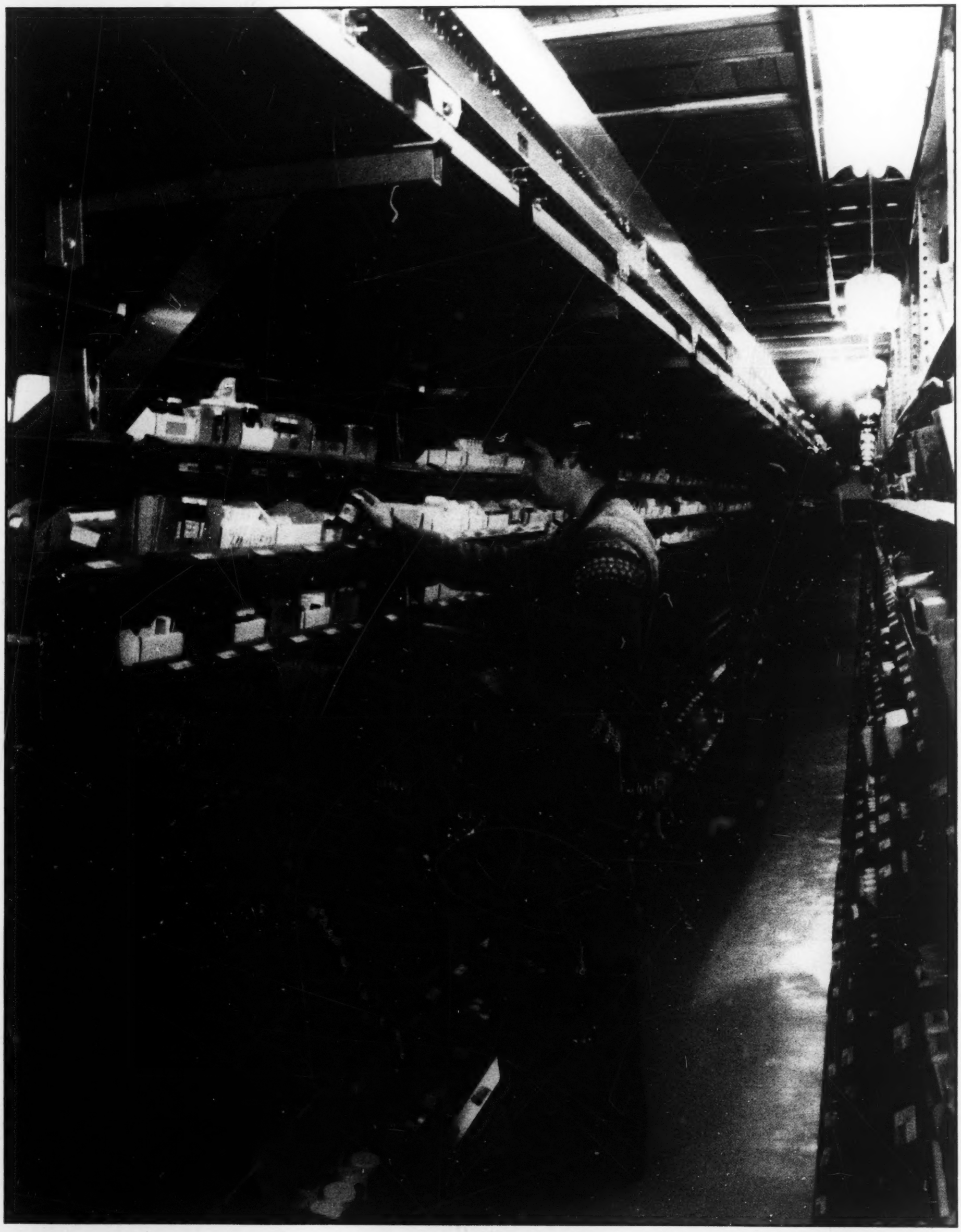
Wholesalers confident upturn is near

NEW YORK—The drug wholesaling industry did not have a good year in 1986.

Not only did the average gross margin in the industry drop to its lowest point in 10 years, but 1986 was also the first year that reductions in operating expenses did not offset the decline in gross margin profitability.

But now as 1987 is drawing to a close, drug wholesalers are consoling themselves with two positive thoughts: one, that the worst is behind them, and two, that 1986 wasn't a typical year but an aberration, and that 1987 and 1988 are going to be much better.

"1986 was not a typical year," says Phil Engle, president of Bergen Brunswig's Drug Wholesale division.



1986 was 'blimp' year

"Because of the rash of acquisitions that the industry has generated in the past two years, and the expenses of consolidating those acquisitions, 1986 was a blimp year.

"Part of early 1987 was also a downward blimp," says Engle, "but beginning in the third quarter of 1987, we began to see an upward trend, and I think that trend will hold up through the rest of 1987 and 1988."

Most wholesalers say they agree with Engle that 1987 will be "a bit better than 1986," and that 1988 and 1989 will hopefully signal a clear return to profitability.

Most wholesalers also say they feel pretty certain they know what happened to them in 1986, and they're confident they can overcome at least some of the problems during 1987 and '88.

"The National Wholesale Druggist's Association's (NWDA) report on operating results for 1986 was pretty accurate," says FoxMeyer Chairman Bill Tauscher. "1986 was a terrible year.

"Margins fell faster than reductions in operating expenses for the first time that I've been in the business."

Factors impacting profitablity

Tauscher, like many other executives in the drug wholesaling industry, believes the 1986 profitability picture was adversely impacted by a number of factors. These included disinflation, the effects on major companies of too rapid consolidation, predatory pricing which was, in turn, spurred by a furious determination to gain market share points at any cost, and by pressure from hospitals and independent retail buying groups for higher discounts off their costs of goods.

"Because we reduced our prices faster than we reduced our operating expenses, the competitive nature of our industry outdid itself, and the result was a terrible year," says Tauscher.

Other wholesalers make the same point.

"Before, we have always been able to offset gross margin erosion with increased economies and efficiencies in operating expenses," says Joe Churchman, chairman of Alco Health Services and this year's chairman of NWDA.

"Now, however, we seem to have reached a point where that's not doable anymore, and there are many reasons for that including competition, the complexity of hospital business, the growth in the independent retail buying groups, etc.

"From here on out, the industry is going to have to try to achieve further economies by moving in new directions, such as with the electronic transfer of funds and with bar coding methods, and these are now areas where the NWDA is trying to concentrate its energies."

"There is a ray of hope for 1987 and 1988," says Seth Harris, president of Harris Wholesalers.

"There's an attitude change now," Harris explained. "People are starting to look at profitability versus just doing more volume. I don't think the competitive situation is going to get better very fast, but I think we are starting to come out of the worst of it."

At Twin City Wholesalers in Minnesota, President Barry Krelitz calls this current stage of development "an opportunistic time for more wholesalers." Twin City, like Amfac, had a very profitable year in 1986, and Krelitz says their success was due to "extreme watchfulness on our part.

"We tried to improve our operations by reducing costs," he says, "and we watched our margins at the same time. But the average wholesaler today has to be creative in how they package their programs for the marketplace. You need to develop a package of services, and not just go out there and bid strictly on price."

At Bindley Western, President Bill Bindley further emphasizes the need to improve gross margins.

"If your gross margin is not high enough to offset your operating expenses, then you're in a loss situation," says Bindley. "I hope that's sinking in. At some point, service has to become more important competitively than price alone.

"Price as a competitive tool can only be used successfully by the most cost-efficient wholesalers. If you want to use price as a key marketing tool, then you have to be able to continue to reduce the costs of your labor, the costs of your warehouses and the cost of your distribution network.

Wholesalers also identify the declin-

Continued on page 25

Wholesaler Annual Report TRENDS

Wholesalers say '86 was atypical and look to future

Continued from page 23

ing inflation rate as a major culprit slashing away profitability in 1986.

Burt Olin, the chairman and ceo of Humiston-Keeling in Chicago, points out that for the past two years, wholesalers have been buying into price increases.

"Until recently," he notes, "pharmaceutical price increases have been averaging about 10% a year, but last year and this year, they have been averaging just 4% to 5% increases.

"At the same time, the industry has been discounting its own prices worse than ever for both hospitals and retailers. None of this is good for the wholesaler because it means that our inventories aren't growing in value."

Increases unpredictable

Other wholesalers point out that manufacturers are not only increasing their prices at lower rates, they are also taking increases less frequently and at unpredictable times.

Several wholesale executives made the point that management "used to know just about when a manufacturer was going to take a price increase and by about how much the price would be going up."

That meant that wholesalers could buy into the price increase, and stockpile before prices went up. Only today, however, the increases aren't that predictable. They're not coming as often and they're not as high when they do come, so instead of trying to build the value of their inventory, wholesalers are going back to trying to increasing their turns.

"When you turn your inventory faster," points out Olin, "you have money that you can invest in other ways. With gross margins as low as they are today, you can make more money buying CDs than you can by running a drug wholesale business."

Competition

At the same time that disinflation was nibbling away at the overall value of drug wholesaler inventories in 1986, competition for market share was intensifying.

Many wholesalers tried to buy market share by lowering their prices. Others tried to protect their existing shares by either meeting or beating the discounted prices of their competitors.

In many cases, the result has been regional price wars for business that often turned out to be unprofitable.

"You see a lot of wholesalers today backing away from the hospital business," says Olin. "It's partly because that to get the business in the first place, they went in with too low a bid and found out they couldn't make any money, and it's partly because of the problem with chargebacks."

A chargeback is the amount of money a pharmaceutical manufacturer will refund wholesalers for pharmaceutical sales made to hospitals and not-for-profit institutions.

Most manufacturers have a discounted price for hospitals and not-for-profit businesses, but wholesalers typically have had to temporarily subsidize that discount by selling hospitals goods they have purchased from manufacturers at the normal non-discounted price.

Manufacturers then reimburse wholesalers in chargebacks for the difference between what the wholesalers paid for the goods and the discounted price they, in turn, charged the hospitals.

Some manufacturers, however, are taking too long to reimburse the wholesaler for his cost of goods, and that means the wholesaler sometimes has to wait two or three months or more before he gets compensated.

According to NWDA Chairman Joe Churchman, the delay in compensating wholesalers for chargebacks in 1986 cost the industry as much as $200 million in out-of-pocket costs at any given time.

Another problem last year was the growth of independent retail buying groups which negotiated for business strictly on the basis of securing the lowest possible cost of goods.

Many wholesalers say that because of the competitive nature of the industry, many drug wholesaling companies have been reducing prices sharply to capture this business.

"It's one thing to price very low if you can keep your operating expenses low enough to make money on that reduced margin," says Bill Bindley of Bindley Western.

Giving businesses away

"It's a different thing entirely to just give your business away. And it's also a different thing if you discount just so you can drive someone else out of business.

"I'm not so sure that latter has happened because the government would eventually step in, but the former certainly has happened, and the industry is paying for it."

1986 and 1985 were also intense years of acquisition activity. McKesson picked up three major regional companies in 1985. Bergen picked up five in 1985 and early 1986. FoxMeyer picked up three major companies, including the Ben Franklin distribution business and the franchising rights to the 1,300-store Ben Franklin chain which FoxMeyer is now actively franchising. Alco also picked up five companies, and Cardinal acquired two.

As Joe Polastri, the president of McKesson Drug Wholesaling, points out, "The major companies had an awful lot on the plate to digest in 1986."

In agreement

Polastri, Engle, Tauscher and other wholesalers also agree that it has taken this long for the acquiring companies to consolidate their new businesses and to achieve some of the benefits of increased economies of scale.

Now, however, most wholesalers say they believe the overall consolidation process is almost complete, and that in late 1987 and early 1988, the major companies, at least, which generate about 75% of all drug wholesaling sales, will be operating more efficiently.

Most wholesale executives then are being guardedly optimistic in their outlook for 1987 and beyond.

Churchman says he will not make any "sweeping predictions," but that he does believe the gross margin situation will improve.

Improvement needed

"An improvement has to come because wholesalers are becoming aware that they simply need to improve their returns.

"Also, you have more public companies today that have to report their earnings to stock-

Continued on page 28

The nation's highest volume drug wholesalers

Company	FY ending	Est. drug wholesale sales (millions)	% change last year
1. McKesson Drug + San Francisco	3/31/88	$ 4,800	7.0%
2. Bergen Brunswig + Los Angeles	8/31/87	2,750	12.5
3. FoxMeyer + + Denver	3/31/88	1,800	38.0
4. Alco Health Services + + Valley Forge, Pa.	9/30/87	1,700	31.0
5. Bindley Western + + Indianapolis	12/31/87	1,000	42.0
6. Harris Wholesalers Solon, Ohio	4/30/88	1,000	6.0
7. Amfac Drug Supply + + Burlingame, Calif.	12/31/87	700,000	23.0
8. Cardinal Health Group + + Dublin, Ohio	3/31/88	500,000	39.0
9. Humiston Keeling Chicago	5/01/88	360,000	13.0
10. Ketchum Distributors + + Norwalk, Conn.	4/30/88	320,000	5.0
Sub-total Est. 1987 sales for Top 10		$14.9	
Top 10's share of total industry sales		77%	
11. Durr Fillauer + + Montgomery, Ala.	12/31/87	312,000	17.0
12. Owens & Minor + + Richmond, Va.	12/31/87	226,000	8.0
13. Louis Zahn Drug Melrose Park, Ill.	12/31/87	206,000	13.0
14. Northwestern Drug Auburn, Wash.	10/31/87	202,000	7.0
15. Twin City Wholesalers Minneapolis	4/30/88	171,000	11.0
16. Drug Guild Distributors Secaucus, N.J.	7/31/87	170,000	0.0
17. North Carolina Mutual Durham, N.C.	3/31/88	125,000	7.0
18. F. Dohman Drug Co. Germantown, Wis.	4/30/88	114,000	14.0
19. J. E. Gould & Co. Portland, Me.	12/31/87	102,000	23.0
20. Solomons Co. Savannah, Ga.	8/31/88	95,000	6.0
21. Dr. T. C. Smith Co. Asheville, N.C.	4/30/88	93,000	16.0
22. Remo Drug Corp. Brooklyn, N.Y.	12/31/87	86,000	21.0
23. Northwestern Drug Minneapolis	12/31/87	72,000	6.0
24. Dik Drug Burr Ridge, Ill.	12/31/87	70,000	16.0
25. Miami-Luken Dayton, Ohio	6/30/87	65,000	8.0
Total Est '87 Sales for Top 25		$17.0	
Total Estimated 1987 sales for the Industry		$19.4	
Top 25 share of total		88%	
Est '87 sales		89%	

+ + Public companies

Source: Drug Store News/NWDA 1987 Wholesaler Survey

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Wholesalers focus on improving their margins

Continued from page 25
holders, and that in itself is an incentive to come around."

On the chargeback situation, which wholesalers are calling a "major problem and a major issue in 1987," Churchman is also reasonably optimistic that some progress can be made.

"The NWDA has just published a White Paper on chargebacks," he points out, "and this is an important step to setting some standards for the industry.

"A White Paper can't make anybody do anything, but it does suggest some solutions to the problems, and it does help get the attention of all parties.

"The ideal solution for wholesalers would be for manufacturers to advance us the money we are expected to tie up in chargebacks. Some manufacturers are doing that now.

"If all manufacturers would agree to that, then you'd eliminate the problem of the industry being out $200 million at any given point in time in a single year."

McKesson's Joe Polastri is also guardedly optimistic. "We'll see some settling in during 1987," he says. "The situation won't get worse, but it may or may not improve."

Polastri believes that the margin pressure from the independent retail buying groups "is pretty much in place." He said that margin erosion from this direction "won't get worse" and "might improve," especially if the groups start to realize what Polastri says is "the need to think about more than price, and to realize the importance of value-added services like merchandising and promotional support."

At Amfac, President Mel Whitmire thinks both 1987 and 1988 will be better years.

Drug wholesalers: five year sales growth
(billions)

	1982	1983	1984	1985	1986	1987 (Est.)
Dollar sales	$10.20	$11.90	$12.52	$14.32	$16.8	$19.4
% chng. vs. prior year (current dollars)	18.60%	16.70%	12.80%	14.80%	$18.5	16%
% change adjusted for product price changes/inflation	n.a.	9.72%	4.84%	8.65%	12.6%	n.a

Source: NWDA 1986 operating Survey and Drug Store News 1987 estimates

Drug wholesaler industry profitability drops sharply in 1986*

Indicators	1982	1983	1984	1985	1986
Return on net worth	18.10%	16.50%	16.40%	13.10%	9.70%
Return on total assets	7.66	7.17	7.30	6.05	4.46
Net profit	1.95	1.75	1.78	1.47	1.13
Total asset turnover	3.94	4.11	4.13	3.88	3.88
Gross profit margins	11.00	10.16	9.74	8.86	8.19

*FIFO results
Source: NWDA 1986 Operating Survey

"Just because you are not going to see any big changes in the reduction of operating expenses," says Whitmire, 'I think many companies will realize that the way to improve profits will be to raise margins.

"The concentration now will be on shifting to profits to generate new growth. The emphasis now will be on taking what you have and making it more profitable."

"Without question, wholesalers now are going to be concentrating on improving their margins," says Bergen's Phil Engle.

No big surprises

However, at Humiston, Burt Olin says he isn't expecting "any big surprises this year.

"The regionals are going to have to continue to figure out better ways to streamline their operations," he says. "They'll be looking for bodies: less people, less fat.

"The big guys like McKesson, Bergen, Fox, etc., will continue to consolidate their operations, and they'll also continue to diversify. By selling to an ever-broadening base of customers and by continuing to expand their product mix, they should be able to increase their margins without adding too much to operating costs."

At FoxMeyer, Tauscher thinks it may be very hard for most of the regionals and smaller wholesalers to continue to reduce their operating costs because he believes that the majority of wholesalers have reached "the end of the rope" in this respect. "It will take a ton of hard work to make most of us more productive," he says.

However, he also thinks the bigger companies like FoxMeyer, Alco, Bergen and McKesson that are still digesting acquisitions could perhaps streamline operations by another 20 to 25 percent of sales.

"At FoxMeyer, we think we can improve our data-processing expenses as a percent of sales. We think we can still make progress in networking our deliveries. We may be able to further reduce our warehouse operating costs as a percent of sales."

The bottom line, then, is that 1987 may be a better year than 1986 if the majority of companies can manage to achieve further economies, if the chargeback situation can be improved, if competitive instincts can be tamed, if wholesalers start to concentrate more on profitability and investment returns over market share gains, and if inventory turns can be increased.

Only time will tell, however, how fast the industry can succeed in realizing all those objectives.

Wholesaler distribution centers

Company	Number of distribution centers 1986	Number of distribution centers 1987	Sales per d.c. (millions)
Louis Zahn	1	1	$206.0
Twin City	1	1	171.0
Drug Guild	1	1	170.0
Fox Meyer	12	13	150.0
North Carolina	1	1	125.0
Harris	9	8	125.0
F. Dohmen Co.	1	1	114.0
Bindley Western	6	9	111.0
J.E. Gould	1	1	102.0
Cardinal	5	5	100.0
McKesson	54	49	98.0
Solomon Drug	1	1	95.0
Humiston Keeling	4	4	90.0
Remo Drug	1	1	85.0
Ketchum	4	4	82.0
Northwestern (Minn.)	1	1	72.0
Dik Drug	2	1	70.0
Bergen	48	40	68.0
Alco	26	27	63.0
Durr Fillauer	5	5	62.5
Walsh-Lumpkin	1	1	55.0
Value Drug	1	1	54.0
Dr. T.C. Smith	2	2	46.0
Owens & Minor	4	5	42.0
Kendall	1	1	40.0
General Drug Co.	1	1	33.0
C.D. Smith	1	1	25.0
Amfac	36	36	19.0
Esforge Drug	2	2	16.0
Miami-Luken	4	4	15.0

Source: Drug Store News/NWDA 1987 Wholesaler Survey

Drug wholesalers: Status of voluntary/co-op programs

Company	Voluntary	Number of members
McKesson	Valu-Rite	2600
Alco	Family Independent Pharmacies	1100
Durr Fillauer	Price Guard	1100
Bergen Brunswig	Good Neighbor	600
Drug Guild	Drug Guild +	416
Fox Meyer + +	Health Mart	400
Humiston-Keeling	Service Pharmacy	400
Ketchum	PIP	350
Harris	Super Service	342
Cardinal	Leader Drug	300
Dik Drug	Centsible Drug	135
General Drug Co.	Healthway	100
Louis Zahn	Family Drug Centers	84

+ Drug Guild is a co-op program.
+ + Health Mart is a franchised program.
Source: Drug Store News/NWDA 1987 Wholesaler Survey

TRENDS

Wholesaler Annual Report

Wholesalers adapt to change in innovative ways

The drug wholesaling industry is looking for improved profitability in a number of inventive ways.

Many of the major companies with annual sales of half a billion to a billion plus are diversifying both their customer base and their product mix in an attempt to generate incremental sales and earnings.

At the same time, both larger and smaller companies are continuing to look for innovative ways to streamline operating costs and reduce expenses.

And many of the smaller and mid-size regionals are now concentrating on filling a specialized market niche rather than trying to be "all things to all people."

One of the strongest trends this year, at least among the larger companies, is the thrust to diversification.

Companies like McKesson, Bergen Brunswig, FoxMeyer, Harris, Alco and Cardinal are all developing business ventures that are meant to service an ever broadening customer base with an ever expanding mix of products.

At the same time, nearly every drug wholesaler in the industry is trying to achieve additional operating efficiencies through consolidation, automation, and enhancements in warehouse design and layouts.

There is also an emerging new emphasis on running one's business "profitably" and of eschewing opportunities to achieve market share gains at the expense of gross margin erosion.

Following is a brief summary of how the highest volume wholesalers are adapting to change in 1987.

Major wholesalers' sales growth strategies vary

McKesson Drug

At McKesson, which is the industry's highest volume and most diversified drug wholesaler, Drug Wholesale Division President Joe Polastri says the company is pretty much "set" in the development of its service merchandise distribution business.

McKesson has acquired three mass market service merchandisers over the course of the past several years, and has now established that division as a national distributor of sundries, H&BA and GM to a wide variety of customers including food, mass merchandise and variety stores, as well as many of McKesson's traditional drug store customers.

Polastri points out that one of the benefits of the service merchandise division is that margins are much better than they are in the traditional drug wholesaling business.

"By being in the service merchandise business," he also says, "we're in a position to sell our traditional drug store customer better gross margin items, and it also helps us widen the pathway to a whole new customer base for us: the food store and mass merchandise store customers."

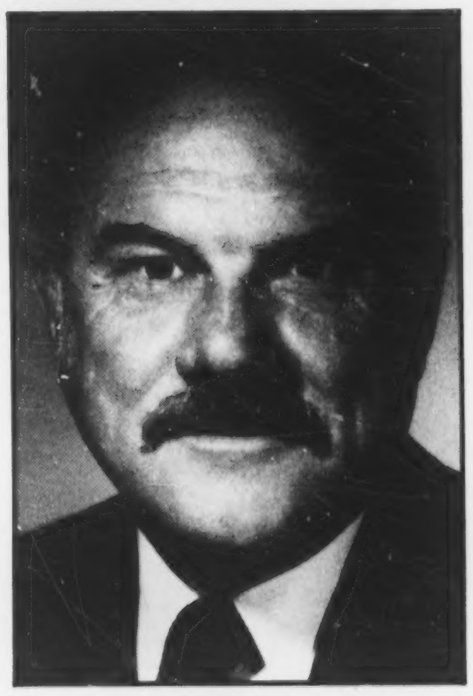
Consolidating position

McKesson is also consolidating its sales and profit position with its relatively new base of hospital customers. The growth in McKesson sales to hospitals has slowed somewhat in 1987, averaging now about 20% a year compared to 40% and 50% about two years ago.

However, McKesson has now succeeded in getting many of its hospital accounts to commit to McKesson as their "prime vendor."

This means that McKesson can now turn its hospital inventories much faster than they could if they were a secondary supplier; plus, McKesson is in a position to provide additional value-added services which would ultimately increase the profitability of its overall hospital business.

McKesson's Home Health Care Division is also growing, but slower than what Polastri would like because of the average retailer's confusion and apprehension over a thicket of government restrictions on the sale and leasing of home



Joe Polastri
President,
Drug Wholesale Division,
McKesson Drug

health care products.

McKesson's home health care business, Polastri said, is growing "gradually" with drug store retailers, but faster with the retailer who sells durable medical equipment like hospital beds and oxygen machines.

Polastri says McKesson's medical-surgical supply business and its veterinary supply businesses are both "growing well," and both are providing McKesson with access to a whole new "opportunistic" customer base.

McKesson does include its medical-surgical sales in its total volume for the drug wholesaling division, but the veterinary supply sales are not counted as drug wholesaling sales.

McKesson's Valu-Rite voluntary program is also growing. Polastri says McKesson has signed on some 1,600 new members just in the past 18 months.

Bergen Brunswig

Bergen Brunswig is also continuing to expand both its customer mix and its base of products and services.

Bergen's recent joint venture with two service merchandise distributors, Sav-A-Stop and J & S Distributors, has been terminated, but Bergen is continuing to expand its own independently operated service merchandise company, Impact, in Arizona.

President Phil Engle says that Impact's growth in the past three years has been strong, and that Impact has been making substantial contributions to Bergen's bottom line.

Currently, Impact, which is run as a separate division within the Bergen Drug Wholesaling Group, is primarily supplying food and mass merchandise stores with GM and H&BA items.

However, down the line Impact may emerge as a service merchandise division with the potential to distribute general merchandise and sundries to Bergen's traditional independent drug store customers.

"We thought last year that the joint venture was the best way to accomplish that objective," says Engle, "because we had learned how hard it was for a traditional drug store wholesaler like ourselves to handle GM and sundry items.

"However the business is so hard that even Sav-A-Stop and J & S couldn't survive, and so we had to dissolve the joint venture.

Arrangement made

"Now we have put the fastest turning GM/sundry items like batteries and low-end cosmetics back into our own drug warehouses, and we've arranged with local general merchandiser suppliers to service the rest of our drug store customers.

"But Impact may be a way for us ultimately to get back into that GM business. For now, though, it primarily gives us access to a new customer base, the food stores and mass merchandisers, who are buying H&BA and the more traditional drug store GM items."

Bergen is also continuing to generate strong growth with both hospital and HMO customers. Hospitals now account for about 35% of Bergen's total business, Engle says, and sales to this customer base are now growing at about 12% to 14% a year.

Sales to HMOs are growing at a slightly faster rate, and Engle says he thinks the HMO business will be an important area of growth for drug wholesalers for several more years to come.

Product mix

In the area of product mix, Bergen is generating continued growth from its sales of pharmacy computers and software programs to independent and small chain retailers.

Bergen has just introduced a new generation computer hardware/software system called OmniPhase, which gives independents and small chains a cost effective program for integrating their in-store pharmacy computers with their cash registers.

Bergen has also just introduced a new private label line called Brite Life. There are approximately 300 sku's in the line including vitamins, H&BA and wets and dries.

Bergen has traditionally provided private label products to its retail customers who are members of Bergen's Good Neighbor voluntary, but this is its first private label line for customers who are not Good Neighbor members.

Program is growing

Good Neighbor itself is growing. Bergen now has about 600 members in Good Neighbor, about 200 more members than last year.

"Voluntaries are turning into a growth area for the industry," Engle says. "Most stores in a voluntary program simply do better than independents as a whole.

"They carry a broader range of products, have better advertising programs and do a higher per store sales average.

"Don't forget that when you have 600 stores, you have all the clout of a chain and all the advantages of an independent."

FoxMeyer

FoxMeyer's diversification strategy is so broad that the company could one day rival McKesson as a multi-faceted conglomerate. Traditional drug wholesaling, at some future point, could possibly dwindle to 25% or even less of FoxMeyer's total annual sales.

FoxMeyer's other sales would come from its newly-emerging franchised retail division and from its emerging presence as a supplier of general merchandise lines.

Bill Tauscher, FoxMeyer's chairman and ceo, thinks that eventually sales from its franchised retail division could account for 40% to 50% of total business, while general merchandise sales from the growing Ben Franklin distribution division could easily reach 25% of FoxMeyer's total business in some two to three years.

FoxMeyer is currently using the distribution end of the

Bill Tauscher
Chairman/ceo,
FoxMeyer

Ben Franklin business to supply its traditional and new customers with GM and sundry products. The 1,300 existing Ben Franklin stores, however, are still the prime customers for the Franklin distribution division.

Adding stores

FoxMeyer, however, is also franchising the Ben Franklin retail program. So far another 49 stores were added last year, and Tauscher expects to add another 75 this year.

FoxMeyer is also the only drug wholesaler to franchise a retail drug store program, Health Mart, and the company is about to launch its third retail franchise, a craft store operation that is so far unnamed.

To a certain extent, FoxMeyer is already in the craft business, since a typical Ben Franklin store generates about 25% of its sales from craft products.

FoxMeyer plans to open its first, and probably only, company-operated craft store in Atlanta this fall, and to use its Ben Franklin distribution system to support it.

Hopes to open 35-50

In 1988, Tauscher says FoxMeyer hopes to open between 35 to 50 franchised craft stores.

Down the line, Ben Franklin may also evolve into FoxMeyer's general merchandise division. At peak seasonal times, the division already stocks some 50,000 GM/sundry sku's, and Tauscher can see the day coming when Franklin can act as a general merchandise supplier

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FoxMeyer

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to all of FoxMeyer's retail customers including their traditional drug stores as well as its older food, variety and mass merchandise store customers.

Franklin will also be the main source of supply for all front end products sent into FoxMeyer's three franchised operations: Health Mart, Ben Franklin stores and the new craft stores.

Today, most drug wholesalers don't even get 1% of their business from GM lines, but FoxMeyer is already generating about 15% of its overall business from Franklin's GM lines, Tauscher says.

"We didn't even have a presence in that market until we acquired Ben Franklin in 1986," Tauscher adds.

The Health Mart franchise is now up to 400 stores, an increase of about 10% over this same time last year. Since an average investment in a Health Mart franchise is about $25,000, Tauscher considers the 10% increase a good rate of growth.

"We're very happy with Health Mart," he says, "both with the increase in sales and profits."

Tauscher also points out that wholesale sales to the Health Mart franchisees accounts for about 10% of FoxMeyer's total drug wholesaling business, "and that's with 400 Health Mart customers," he says, "and 7,000 total customers."

Tauscher says his hospital supply business has not been growing as fast in prior years, but he says that's primarily because most hospitals have already made the shift from direct manufacturer purchases to a prime vendor wholesaler program so there is less opportunity to achieve dramatic increments in sales.

However, Tauscher is quite satisfied with the hospital supply end of FoxMeyer's business, and he says total sales from that division will reach about $100 million this year.

Tauscher also says that although the home health care business is "complicated," it is also growing for FoxMeyer. To date, there are about 900 retailers at FoxMeyer on that program.

FoxMeyer has also taken an aggressive role in trying to help its independent retail customers acquire HMO business.

This past year, FoxMeyer formed its first PPO in Denver and its second in Chicago. Currently, Tauscher says FoxMeyer is processing over half a million PPO claims a month for its retail customers. There are about 200 independents and small chains in the Denver PPO, and the Chicago PPO is still signing on retail members.

"This is a key growth area for us," Tauscher says. "We've got to make it easier for our customers to get the HMO business, so we bid on the HMOs and we process the claims."

Tauscher also supports the independent retail buying groups which try to form PPOs. The retail buying groups, he says, did a great job getting competitive bids from generic companies.

"They accomplished what we as wholesalers should have been doing all along," Tauscher says, "but now they have solved that problem and most wholesalers have good competitive prices on a variety of quality generic lines.

Help form PPOs

"Now the most productive direction for the retail buying groups is in helping their members form PPOs so they can compete with chains for the HMO business."

This year, FoxMeyer toned down its acquisition activity, picking up only one regional house from Harris Wholesalers, the Narco Drug Company in St. Louis.

Tauscher points out that there are obvious reasons for the cutback in acquisition activity. The major companies like FoxMeyer, McKesson, Bergen and Cardinal, which have been the most active in picking up regionals, have had to slow down to digest what's been acquired. Tauscher points out further that there are only about 10 major regionals left that would really give the acquiring company strong market share gains.

Also, the prices being offered to acquisition candidates are not as attractive as they were one and two years ago, so there is less willingness on the part of the smaller independents to sell out to the bigger companies.

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Alco

Part of Alco's strategy to maximize economies of scale, however, is to continue to look aggressively for additional acquisitions, primarily acquisitions of other traditional drug wholesalers.

In late 1986, Alco picked up three regional companies, Michiana Merchandising Systems, in Mishawaka, Ind; Archer Drug in Little Rock, and Mississippi Drug in Jackson, Miss. So far, the company has not acquired anything in 1987, but Joe Churchman, chairman and ceo, says Alco is "continuing to talk," although there probably won't be anything that will be announced soon.

Alco, like many other drug wholesalers, has diversified into the home health care business, and Churchman says that growth in this product area so far "has been living up to its potential."

Testing program

Alco is currently testing a home health care program for mass merchandise chains. The test has been going on for a while, Churchman says, in a "handful of stores" operated by a major mass merchandise chain.

Churchman says it is too early to talk about the results of the test, except that Alco is trying to simplify the operations end of the business for its customers, including the mass merchandiser chains, by "handling all the problems and all

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Alco

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the paperwork ourselves.

"The retailer just signs the customer," he says. "Our people take it over from there and we have experts who handle all the paperwork."

Among its drug store customers, Churchman says Alco now has about 350 to 400 stores with either home health care departments within the store or in a separate store close to or adjacent to the main drug store.

Studying the option

Churchman says Alco is also "studying" the option of expanding into the service merchandiser business as McKesson and FoxMeyer have so far successfully managed to do.

Alco does have a division called Shawnee-Evans that buys and distributes promotional merchandise for its retail customers, and an expansion of mass and service merchandise lines could come from that operation, but it is more likely that it would come from acquisitions of existing businesses.

Alco also says its base of hospital and HMO customers is continuing to grow, and for the first time, Alco has also begun forming PPOs as a service to its retail customers.

Churchman says Alco so far has formed PPOs, as FoxMeyer has done, in several states.

"Our basic job," he says, "is to help the retailer, and if there's a way of bringing retailers and customers like HMOs together, then that's a responsibility we have."

Dollar sales growth trends

(Customer segments with the strongest and weakest sales growth trends)

SALES TO	Dollar sales for past two years			Dollar sales projections for next two years		
	Increase	Decrease	Stay Same/ No Opinion	Increase	Decrease	Stay Same/ No Opinion
Independents	79%	—	21%	100%	—	—
Chain drug stores	64	21%	14	64	—	36%
Chain warehouses	36	—	64	29	7%	65
Mass merchandisers	21	—	79	29	—	71
Food/grocery/ combo store chains	29	—	71	36	—	64
Clinics/HMO's	29	7	65	57	—	43
Nursing home suppliers	21	7	65	29	—	71
Nursing homes direct	7	7	86	29	—	71
Physicians/ corp. with own formularies	14	—	86	—	7	93
Mail order houses	—	—	100	—	—	100
Hospitals	57	29	14	43	29	28
Home health care operators	36	—	64	29	7	65
Independent retail buying groups	21	7	72	43	7	50

Source: Drug Store News/*NWDA 1987 Wholesaler Survey*

Bindley Western

Back in December 1986, Bindley Western acquired Stamford Superior Drug in Stamford, Conn.

At that time, Stamford had two operations that were new to the Bindley system: a private label generic distribution company, Glenlawn, and a catalog health and beauty aid business called Special Services.

In the last nine months, Bindley has been busy expanding both the businesses.

Bill Bindley, the chairman and ceo, said "The generic company is now giving us an opportunity to serve our customers better, plus the line gives us higher margins."

With about 1,200 controlled label sku's in the generic line, Bindley's customers can now use their wholesaler as a one-source supplier for all their generic needs.

Bindley also has a product liability guarantee for their customers which is in addition to the manufacturer's product liability guarantee. "With the line," says Bindley, "we're able to guarantee the chains that are our customers a quality product that is consistently the same, and yet conveniently available from a one-source supplier.

"When they get a generic line from us, they know that the color of the pills, the shape and the label will always be the same."

The catalog business, Bindley also points out, "helps us capture additional health and beauty aid business with variety and discount stores as well as with stores that specialize primarily in H&BA."

Specials are in catalog

Retail stores which subscribe to the Special Services catalog receive a promotional circular every three months. All the specials are in the catalog, and a retailer can order 11 cases of one item and get the twelfth case free.

Bindley also says this business, which captures a new customer base, is also a higher margin business than the traditional drug wholesale operation.

Bindley says his business with HMOs who run their own pharmacies has also been growing. The growth is not as dramatic as the increase in hospital business because there is a smaller base of HMOs and bidding contracts come up less often. However, the business is more profitable than hospital business, and servicing that business doesn't involve any dramatic change in Bindley's everyday operating procedures.

Bill Bindley
Chairman/ceo,
Bindley Western

Harris Drug

Harris Wholesalers is continuing to increase its base of voluntary members and is now up to about 340 Super Service members.

This year, Harris introduced a new private label H&BA/vitamin line for its voluntary members, Harbest.

Harris is also continuing to look for specialized niches it can fill in its market. Harris also has a service merchandise division called Harris General Merchandise, and that division is a member of the National Service Merchandisers Association.

Sales growing 25-30%

Harris GM has been in the business for about six years, and President Seth Harris says sales have been growing at the rate of about 25-30% a year. The division, which is run separately from Harris's traditional drug wholesaling operation, primarily sells H&BA and GM to food and mass merchandise stores.

Home health care sales are also growing at Harris at the rate of about 22% to 25% this year. In 1987, Harris opened two new markets for home health care sales: New England and Atlanta. Sales are both to Harris's traditional retail drug store customer as well as to new customers like home health care store operators.

In Harris's two-year-old Medical-Surgical Supply Division, Harris reports "moderate growth." He says margins have also "dropped off" in this business because of cost-cutting programs in the hospital industry.

This year, Harris began adding candy to the mix in its Cleveland distribution center.

"It's a different business, but the turns are high. We've been in it for four months," says Harris, "and we're trying to determine what our return might be."

Amfac

Amfac, which generates more than 90% of its sales in pharmaceuticals, is still concentrating on expanding its basic product mix to new customers.

President Mel Whitmire says that in 1987, Amfac continued to experience strong growth in its hospital business. Hospitals now account for about 28% of Amfac's total sales compared to 22% last year and 11% in 1985.

"We still outpace the industry in growth in that market," says Whitmire, "but even for us, the growth is starting to top off a bit because many of the hospitals today are on prime vendor programs."

Whitmire says HMOs with pharmacies are becoming a growth area for the industry as well as for Amfac, but the growth is not as dramatic as it was for hospital business. He says this is because there is a smaller base of HMOs with pharmacies in the country, and because they only put their business out for bid every two or three years so there is a longer wait for wholesalers to be eligible to compete for the business.

No commitments yet

Home health care currently accounts for less than 1% of all Amfac sales. Whitmire is testing a more expanded program, but has not made any commitments yet.

"There's a space problem for us," he says, "because our distribution centers at 15,000 square feet are small."

Cardinal Health Group

In 1987, Cardinal's Health Service Division has been concentrating on increasing its share of hospital business for both pharmaceutical and medical surgical supplies.

The company is also the only wholesaler to use the same sales force to sell both pharmaceuticals and medical/surgical supplies to its hospital customers.

President Mike Quinn also says that Cardinal is emphasizing its service programs as well as its pricing to hospital companies.

Daily service

"As part of our service," says Quinn, "we're delivering pharmaceuticals to the hospitals once a day, so it's also just as convenient for us to deliver medical-surgical supplies once a day." Quinn says that most suppliers of medical-surgical products only deliver to hospitals every three days.

Cardinal's voluntary program is also growing dramatically. There are over 250 stores in the program now, more than twice as many as last year, and Quinn says new members are enrolling at the rate of 25 a month.

Cardinal is also aggressively seeking expanded business with HMOs, nursing homes and home health care operators.

Mike Quinn
President,
Cardinal Health Group

Wholesalers disclose operational efficiencies

In the area of cost containment, and gross margin enhancement, the major drug wholesalers are doing the following things:

McKesson

McKesson, which acquired three major regional drug wholesaling companies in 1985, has not bought any new companies recently. The emphasis has been on digesting and consolidating the companies already acquired.

McKesson closed another of its smaller 15,000-square-foot distribution centers last year, and now has a total of 49 distribution centers in operation. An average McKesson DC generates about $98 million a year in sales.

McKesson also just opened its second multi-combination DC in Memphis. Like the Honolulu combination warehouse which opened in 1985, the Memphis warehouse shelters several McKesson divisions under its one roof.

In this case, McKesson is distributing its traditional drug store products, its veterinary supplies, office products and Valu-Rite promotional merchandise, all from under one roof.

Another combination warehouse is slated to open shortly in Texas and Polastri says McKesson will open more combination warehouses "as the opportunity arises."

McKesson has also added more productive cube space to its S-P Drug warehouse in New York, and expanded its Sacramento warehouse by another 85,000 square feet.

McKesson has also gone into what Polastri calls a "beta-test" or an "actual work condition test" of a new technology that the company believes will further help streamline operating costs.

McKesson has spent the past year testing the European-developed technology in the laboratory environment. Polastri says it is still "too soon" to talk about the technology and what it can do, but he says it is a very promising experiment.

Bergen Brunswig

Bergen Brunswig is also investing in a new technology that was developed in Europe and which may be identical to the program McKesson is testing.

In the first quarter of 1988, Bergen plans to open its second automated picking warehouse.

The 210,000-square-foot facility will be located in southern California, and it will feature a new generation of automated picking machines that Bergen Drug Division President Phil Engle says are "much faster" than the Itematic pickers which Bergen installed in its first automated picking warehouse in San Jose.

Engle says the Itematic machines are more efficient than manual picking and have generated cost savings, but he says the new technology is even faster than the Itematics and these new machines do not need to be back-loaded, which is the main drawback to maximizing cost savings with Itematics.

Engle says Bergen will also be able to achieve further economies of scale from the new warehouse by consolidating the operations of at least two or three other DCs into this one new facility.

FoxMeyer

FoxMeyer Chairman and ceo Bill Tauscher thinks the company can take another 20% to 25% off its operating expenses as a percent of sales.

Tauscher says FoxMeyer is in the process of achieving that objective by automating its data processing systems, by networking deliveries from all the various FoxMeyer divisions including traditional drug store merchandise and Ben Franklin-style GM/sundry merchandise, and by continuing to modernize its warehouses.

"It's a matter of a tenth of a point reduction here and there," says Tauscher.

Today, the company is also continuing to consolidate its 18-month-old acquisition of the Ben Franklin franchising and distribution company. To date, all the Ben Franklin trucks have been integrated into FoxMeyer's traditional distribution network.

Consolidated supply

Right now the Ben Franklin division is supplying GM and other sundry products to all of FoxMeyer's franchise customers, and down the line Franklin will supply all of FoxMeyer's retail customers with GM/sundry lines.

FoxMeyer is also preparing to open its first combination warehouse exactly as McKesson has done.

The first combo warehouse is now under construction in Los Angeles. It's a 280,000-square-foot facility that will also house the Ben Franklin GM/sundry product lines as well as FoxMeyer's traditional drug wholesaling product mix. Tauscher says FoxMeyer plans to open its new superwarehouse within a year.

FoxMeyer currently has 13 drug wholesaling warehouses, six hospital supply warehouses and four Ben Franklin warehouses.

Since FoxMeyer has acquired several of the industry's highest-volume single houses like McPike and Lawrence, the average FoxMeyer warehouse does about $175 million a year in sales. The industry average, in comparison, is about $50 million.

FoxMeyer is not using automated pickers in its warehouses because Tauscher does not believe "the productivity is there," but many houses have a laser system, flow racks and automated conveyors.

Alco Health Services

In an effort to decrease operating expenses, Alco Health Services is continuing to upgrade its distribution centers. Several have been modernized so far in 1987, and one DC has now been equipped with an automated picking machine for high velocity pharmaceuticals.

Alco has also begun to consolidate its warehouses, and is studying the feasibility of closing certain smaller DCs in select markets and replacing them with larger houses.

Management is also considering opening more satellite distribution centers that would be strictly for warehousing pharmaceutical goods.

Bindley Western

Bindley Western, which primarily breaks down shipments for its large base of warehousing drug chain customers, is already functioning at peak capacity.

Chairman Bill Bindley says the company has the lowest operating expenses of any drug wholesaler in the industry: about 1% of sales.

"We can operate with reduced margins because we've been able to reduce our labor costs, reduce our picking costs and make our warehouses more efficient," says Bindley.

"Now we're looking for increased economies by developing new sales progams for our larger customers.

Full cases prefered

"The trend for us is to sell full cases rather than single items or two items. It costs less to pick a full case, and it's more efficient for us.

"Even with our inventory expanded to handle more hospital business, we're turning our inventory 40 times a year."

Bindley is also building a 63,000-square-foot facility in Brockton, Mass., and will move into it next month. That will give Bindley a total of 10 distribution centers.

New Orlando facility

A new facility in Orlando is also under construction, and Bindley is putting a 45,000-square-foot addition onto its recently-acquired Stamford DC.

Bindley has also installed a new data system that improves communications between the warehouses, and its new vp of purchasing is also working on a new automated system that will allow Bindley to partially automate replenishment.

The company already has a centralized purchasing system.

Harris Drug

President Seth Harris is also looking for ways to consolidate and relieve his operating expenses.

Harris is working with manufacturers on programs that will increase the amount of paperwork that can be processed electronically, and eventually Harris hopes to be able to automate its receiving functions.

This year, Harris sold its St. Louis division, Narco Drug, to FoxMeyer. The move leaves Harris with eight warehouses in operation.

Continued on page 41

Status of wholesaler services for retailers

(The growth of value added service programs among wholesalers)

SERVICE	Provide	Don't have	Studying	Planning to offer
Point of Purchase aids	73%	13%	7%	7%
Plan-o-grams	87	13	—	—
Ad support programs	100	—	—	—
Co-op ad dollar programs	86	7	7	—
Product price labels	100	—	—	—
Shelf price updates	100	—	—	—
Price updates	100	—	—	—
Store remodeling programs	73	27	—	—
Store fixturing programs	67	33	—	—
Accounting/bookkeeping services	26	60	7	7
Third party claim processing	53	47	—	—
Extended dating on opening inventories	87	13	—	—
Direct loans for expansion/ acquisition, etc.	33	67	—	—
Co-signing loans for retailers	40	60	—	—
Arranging financing	40	53	7	—
Site selection	40	60	—	—
Pharmacy computer software	73	27	—	—
Point-of-sale software	33	53	7	7
Scanning software	27	47	7	19
Pharmacy computer hardware	67	33	—	—
POS scanning/computer hardware	21	53	13	13
Host support for computers	33	67	—	—
Inventory reports	93	—	7	—
Financial/management reports	33	53	7	7
Product movement reports	100	—	—	—
Business insurance	27	73	—	—
Private label programs	33	60	—	7

Source: Drug Store News/NWDA 1987 Wholesaler Survey

Wholesaler Annual Report TRENDS

Continued from page 38

Amfac Health Services

At a time when the industry has been plodding through its worst year ever, sales at Amfac's health care division have been up 31% in the past six months and profits have been up close to 250%.

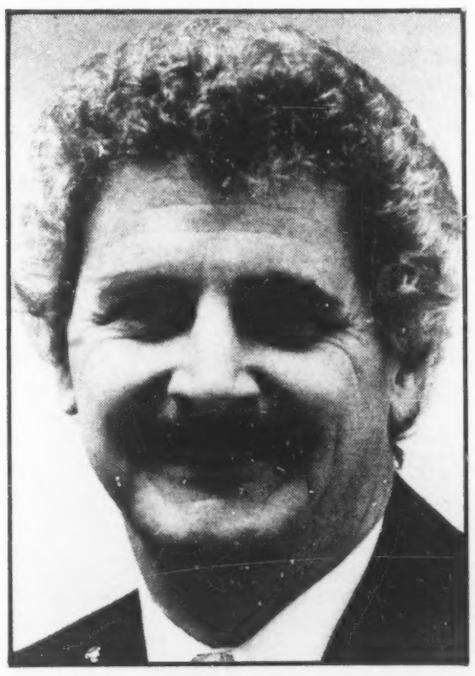
Amfac President Mel Whitmire calls the strong performance "ironic" because he attributes the growth to Amfac's previous delay in modernizing.

"We're maybe five or six years behind the industry as a whole," Whitmire says. "We're realizing economies of scale and cost reductions now because we're streamlining and implementing the cost containment measures that the rest of the industry implemented years earlier."

In 1987, Amfac expanded 11 of its 36 DCs by an average of 6,000 to 8,000 square feet. Until now, the typical Amfac DC has been about 14,000 square feet, and each DC has been averaging about $14 million a year in sales, which is very low.

The bulk of Amfac's sales, about 90%, are still in pharmaceuticals, but Whitmire is studying the possibility of expanding the Amfac product mix "at some future point."

Amfac had experimented with the veterinary supply business as McKesson has done, but Whitmire says the business was not "profitable enough."



Mel Whitmire
President, Amfac

The changing mix of products for today's drug wholesalers

(The % of business the average wholesaler does with each product category)

	% of Wholesalers who are averaging this % of total sales from these segments									
SEGMENT	**0**	**1%-5%**	**6%-10%**	**11%-20%**	**21%-50%**	**51%-60%**	**61%-70%**	**71%-80%**	**81%-90%**	**91%-100%**
Pharmaceuticals	—	—	—	—	—	8%	15%	31%	46%	—
OTC products	—	15%	55%	30%	—	—	—	—	—	—
HBA	—	39	46	15	—	—	—	—	—	—
Sundries	—	70	30	—	—	—	—	—	—	—
Home health care	—	70	30	—	—	—	—	—	—	—
Other	84%	8	8	—	—	—	—	—	—	—

Source: Drug Store News/*NWDA 1987 Wholesaler Survey*

Cardinal Health Group

By the end of this year, Cardinal's Health Services Group believes it will have the "most sophisticated, state-of-the-art warehouse facilities in the industry."

President Michael Quinn says Cardinal is nearly finished upgrading and automating each of its five divisional warehouses.

Cardinal has been working on software that Quinn says "will completely automate the buying and reordering process." When Cardinal has the program in place, Quinn says the company will be able to automatically replenish and reorder "every item in the company's inventory."

Cardinal has also reorganized its operations so that each function that an individual DC performs has been standardized from customer service through purchasing.

The divisions have also been linked to each other by computers for the first time, and all these measures Quinn says has improved Cardinal's operating efficiencies "substantially."

Warehouse operating procedures

	% of Distribution centers that use the following systems				
SYSTEM	**None**	**1%-25%**	**26%-50%**	**51%-75%**	**76%-100%**
Night picking	53%	7%	7%	—	33%
Batch picking	47	7	—	7%	39
Automated pickers	93	7	—	—	—
Scan/bar code deliveries in receiving room	93	—	—	—	7
Use computers to set sequence of a pick	7	—	—	40	53
Zone pick	40	—	—	7	53
Pick by product category	33	20	7	—	40
Computerized conveyors	67	—	7	—	26
Use a pc to handle returns	67	—	7	7	19
Use a computer to reorder	33	7	—	—	60

Source: Drug Store News/*NWDA 1987 Wholesaler Survey*

% of Wholesalers who offer voluntary programs to their retail customers:

72%

Source: Drug Store News/*NWDA Wholesaler Survey*

The % of vendor bills that wholesalers are paying electronically

	0	1%-10%	11%-20%	Above 21%
% of Wholesalers giving this response	7%	84%	7%	0

Source: Drug Store News/*NWDA 1987 Wholesaler Survey*

% of Drug wholesalers who give retailers zone pricing information

SEGMENT	% of Wholesalers who give retailers zone pricing
Pharmaceuticals	40%
Over-the-counter drugs	60
Health & beauty aids	60

Source: Drug Store News/*NWDA 1987 Wholesaler Survey*

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Drug stores may be missing the boat with 7 out of 9 popular shampoos

Hair care buyers, want to try your hand at solving a puzzle?

According to a consumer survey initiated by Austin, Texas-based Martin & Martin Information Consultants, there are nine shampoos that are the regular favorites of over 52% of all American households. Of those nine brands, however, only two, Prell and Ivory, are purchased at least 50% of the time in drug stores.

The puzzle, of course, is this: Why are drug store merchandisers doing such a good job getting Prell and Ivory users to buy their brands in drug stores most of the time, and why are they missing the boat with the brand-loyal shoppers of the other favorites?

The H&BA buyers we talked to were surprised at the results of this particular survey. A few thought the drug store industry must be advertising Prell and Ivory more often than the other brands.

But according to Nielsen's Majers Corp., which tracks drug store ad activity, as well as our own tracking of promotional activities, that is not necessarily the case. In recent years, Flex has been one of the most advertised brands in drug stores, and Suave, Jhirmack, Pert Plus and Clairol Condition have gotten their fair share of exposure too.

One buyer said that maybe the Prell and Ivory shoppers were just more representative of drug store shoppers in general. "Maybe they share the same demographics," she suggested, "a little older, a little more skewed to the low to middle income levels."

But that doesn't explain the findings either, because Flex, Suave and Head & Shoulders are not that much more expensive than Ivory or Prell, and the user markets they are targeted to reach is not that different from the target markets for Prell and Ivory, excluding the niche marketing for Head & Shoulders.

One reason for the survey findings may be that drug stores are failing to exploit all the sales opportunities they have with seven out of nine very popular shampoos.

Stores may need to do more endcapping or feature displays with these specific brands, or they might want to consider expanding facings.

Martin & Martin's data found that 24% of all American households buy their shampoo at drug stores at least 50% of the time.

Prell, for example, was picked as the current favorite shampoo brand by 5.8% of all households. And, according to the survey, more than half of all shoppers who name Prell as a favorite shampoo say they purchase their Prell most often at a drug store.

Drug stores also capture the bulk of purchases for Ivory and Pert Plus.

In comparison, users who named Nexxus, which is primarily a salon-distributed brand, as their favorite shampoo, were much less likely to buy it in a drug store. However, even in the case of a brand that has relatively limited distribution in drug stores, some 14% of all users said they do buy this brand in a drug store about 50% of the time.

We do seem to have a puzzle on our hands here, but it's also pretty clear that drug stores are losing purchases to other mass merchandise outlets like food and discount stores.

Hair care merchandisers should consider re-analyzing their hair care planograms and ad strategies. If there is a potential here for increased sales, then, of course, it should be identified and exploited.

How brand-loyal shampoo users shop drug stores

Brand	% of Consumers naming as "favorite brand"	% of brand users who buy their brand in drug stores at least 50% of the time
Head & Shoulders	9.7%	17.0%
Nexxus	7.4	14.2
Clairol Condition	6.6	28.0
Prell	5.8	56.9
Revlon Flex	5.8	14.0
Ivory	5.2	45.5
Pert Plus	4.0	28.8
Suave	3.8	21.0
Jhirmack	3.5	14.3

Source: Martin & Martin Information Consultants, Austin, Texas

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Sales trends in home medical test kits						
Segment	'86 Sales (retail $) (millions)	% Chng.	'87 Sales (retail $) (millions)	% Chng.	'88 Sales (retail $)	% Chng.
Home pregnancy test kits	$ 43	16	$ 49	14	$55	12
Home blood pressure test kits	176	18	211	20	252	19
Home fecal occult blood test kits	39	18	46	18	52	13

Source: Packaged Facts, New York

Researcher: Self-reliance items rate special marketing attention

What's the best way for drug store retailers to take advantage of the current trend toward self-reliance and self-enhancement?

Ed Weiss, vp of Packaged Facts, a marketing research company, recommends that retailers merchandise their stores to call attention to products that can either enhance the consumer's health and well being or help prevent or stall the onset of specific diseases or the aging process itself.

Weiss is particularly enthusiastic about the merchandising and marketing opportunities presented by the current expansion of the home medical testing market.

A recent study done by Packaged Facts projects that the market for home medical testing products will exceed $1.4 billion in retail dollars by 1992.

Weiss says the current dollar size of all home medical testing products is about $515 million. "That total segment is going to continue to grow by at least 18% for the next five years," he says. "Partly we're seeing so much dramatic growth because the overall concept of home medical testing meshes so well with the consumer's desire today to be self-sufficient.

"The upwardly mobile baby boomers, in particular, are making a fetish out of such things as staying physically fit, controlling their lives and becoming fully self-reliant."

"In the sixties," he points out, "we began to see people taking an interest in such things as engaging in sports to stay fit, or going outdoors to stay healthy.

"Instead of depending on professionals like doctors to treat a medical problem, people began treating themselves and they began trying to prevent problems from developing in the first place.

Tests' accuracy improved

"Home pregnancy tests," says Weiss, "first came out on the market in the early 60's, but they weren't accurate enough so the market stayed dormant for a while. In the mid-seventies, the tests became much more accurate, and in the years between 1978 and 1980, that market was growing at the rate of 80% to 90% a year."

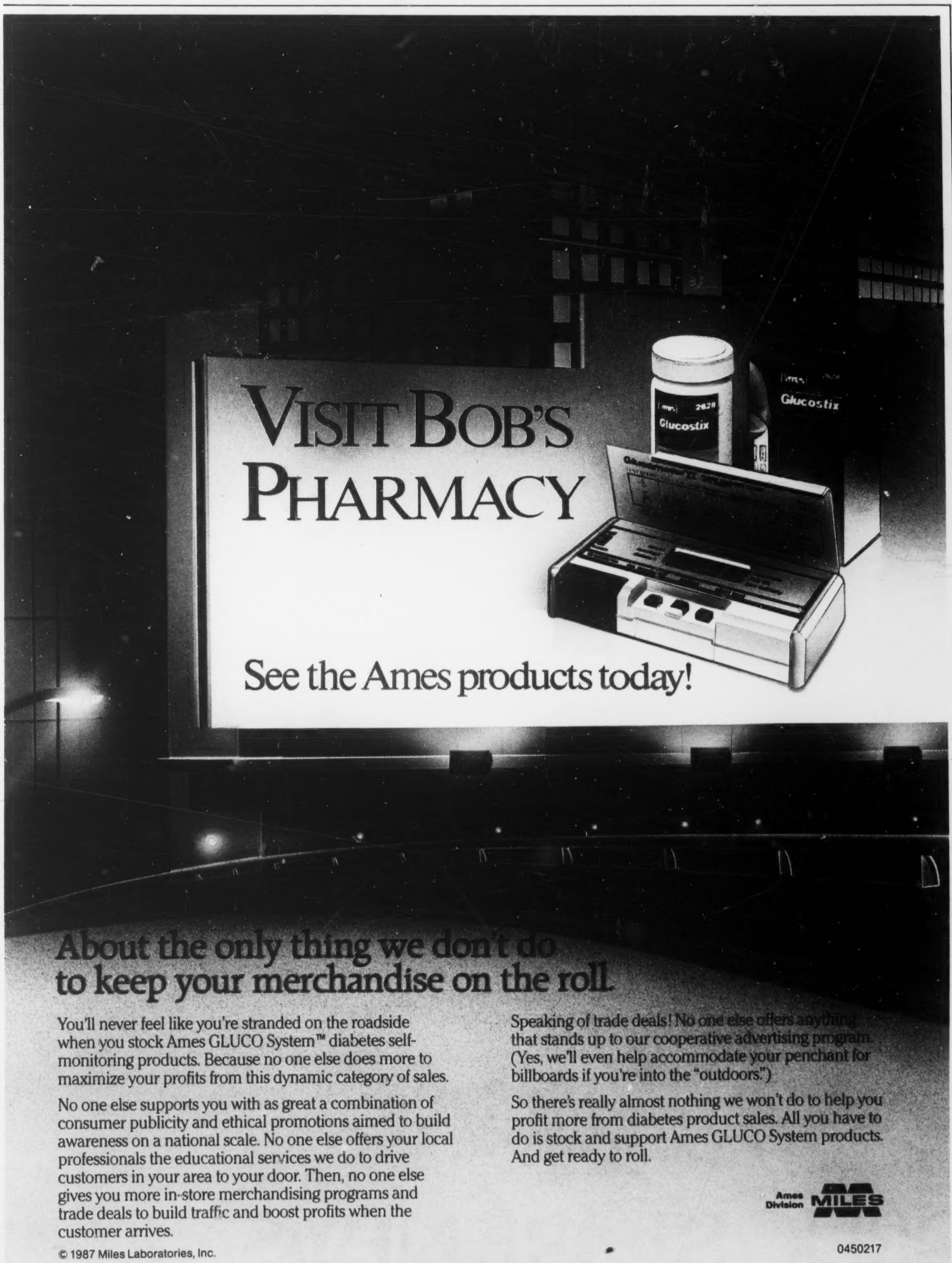
Today Weiss estimates that sales of home pregnancy testing kits are still growing fairly dramatically, up 16% in 1986 to $43 million in retail sales, and projected to increase another 14% to $49 million in 1987 and 12% to 55 million in 1988.

Home blood pressure testing kits will also enjoy steady growth for the next several years. Weiss estimates 1986 retail sales in this category at about $176 million, up 18% over 1985.

In 1987, Packaged Facts is projecting that total retail sales will hit $211 million, up 20%, and in 1988, the company thinks sales will increase 19% to $252 million.

Home fecal occult blood test kits is still another growth area. Weiss says his studies show that kit sales increased 18% to $39 million in 1986, and he is projecting that sales will increase 18% in 1987 to $46 million and 13% in 1988 to $52 million.

There is also the possibility that in the future there may also be a market for tests that can detect sexually transmitted diseases like herpes, gonorrhea and even AIDS. However, because such tests are controversial and need FDA approval before they can be marketed to consumers, Weiss is not making any projections about possible sales growth.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Chains set innovative formats—p. 11

C.E. Lesson:

Second Generation Antidepressants—p.IP25

DRUG STORE NEWS

Vol. 9/No. 19 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. September 28, 1987

Perry Drug in a major realignment

By James Frederick

PONTIAC, Mich.— In a major shift of power, Perry Drug Stores has undertaken a complete realignment of its drug store operations and marketing structure, placing both functions directly under the chain's new president and coo, David Schwartz.

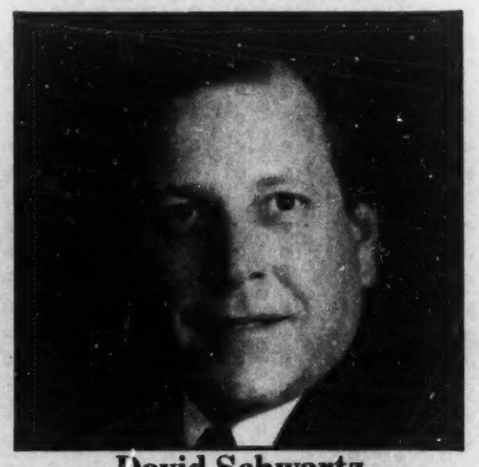
Its main goal, according to Schwartz, "is to create greater agility and flexibility, improve communications and facilitate decision-making so we can respond quickly to an ever-changing market and better serve our customers."

The plan eliminates the position of drug store division president formerly held by Perry veteran Mickey Kole, who has been named a group vice president reporting to Schwartz.

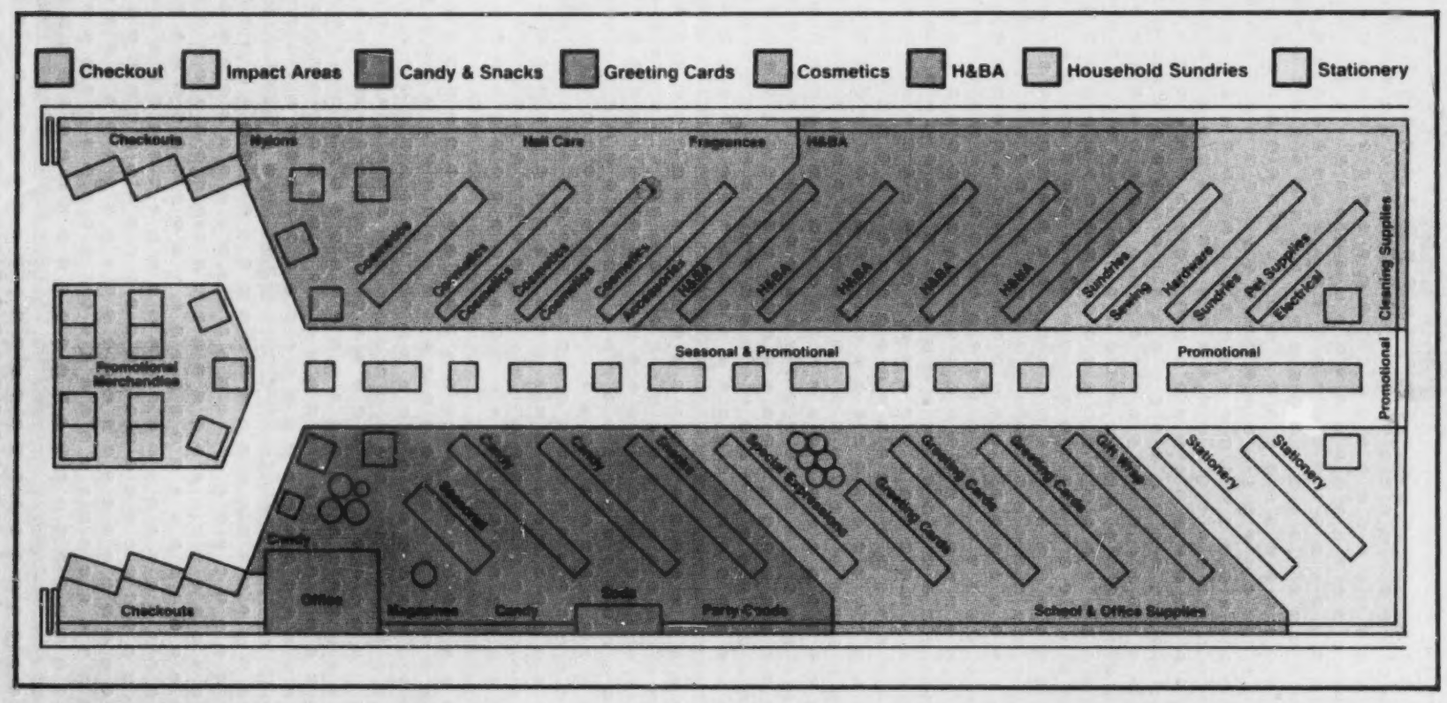
The reorganization divides Perry's 223 drug stores into four groups, with the two largest of about 100 stores now headed by Kole and Samuel Boulton, whose former title was executive vp of store operations for the Pontiac group. Boulton also has been named a group vice president reporting to Schwartz.

Vp Andy Giancamilli will continue to head the 10-store A.L. Price deep-discount

See **Perry,** *page 105*



David Schwartz



Price Rite look may alter face of deep discounting

By Pam Krein

SACRAMENTO, Calif. — When Price Rite Stores opens its first membership wholesale drug facility here in December, it will create a new deep discount drug concept.

Price Rite is patterning its hybrid format after drug deep discounters and 100,000-square-foot membership warehouse clubs--which sell narrow assortments at 8%-10% margins, and achieve profits from high turns and low expenses.

In the first of six 35,000-square-foot units which Price Rite expects to open over 12

See **Price Rite,** *page 105*

K mart and Bruno's join to open giant hypermarket in late 1988

TROY, Mich. — K mart and Bruno's, a Birmingham, Ala.-based supermarket chain, have launched a partnership to develop giant hypermarket stores in the United States.

The proposed stores will feature giant assortments of food, H&BA, general merchandise and specialty items in a format of approximately 225,000 square feet.

The first such store should be open by the fall of 1988, with additional units to follow quickly, according to K mart vp and spokesman A. Robert Stevenson. Although no locations have yet been selected, Stevenson said, the first hypermarket will most likely open in the Southeast, within Bruno's operating area. One

See **K mart/Bruno's,** *page 105*

Woolworth unveils new format

By Dave Vaczek

NEW YORK — F.W. Woolworth will target mall shoppers with broad cosmetic and H&BA assortments in Woolworth Express, a 6,000-square-foot specialty store being launched next month.

The new format will feature high-volume drug store merchandise departments, without pharmacy. Greeting cards, candy, stationery, household sundries, Woolworth's "special expressions" gift lines, and promotional goods will be most prominent within the 5,400-square-feet of selling space, company officers told *Drug Store News*.

Woolworth executives and retail analysts said the company is prepared to back a major

See **Woolworth,** *page 105*

Douglas going public to fund expansion

By Al Heller

NORTH PROVIDENCE, R.I. — Douglas Drug has filed an initial public stock offering with the SEC this month. The chain of 14 upscale super drug stores plans to use proceeds of this offering for expansion and working capital, President John Haronian told *Drug Store News*.

Douglas has built a strong hometown image by combining such broad offerings as books, video rentals, service bakeries and optical centers, with wide aisles, largely carpeted interiors and high service levels.

Douglas stores are positioned as one-stop-shopping destinations that don't need the "help" of other strip center retailers to draw traffic. Most are free-standing.

That has enabled typical 15,000-to-16,000-square-feet Douglas stores to average more than $3 million annual volume and compete against CVS, Brooks and Stop & Shop here. Chainwide sales will top $50 million in the fiscal year ending March 31, 1988.

No operational changes

One company source said the stock sale "would not change the way Douglas operates." He was referring to the constant communication between stores and headquarters, up to chain founder Haronian, which enables Douglas to be highly responsive to market needs.

Through underwriter Providence Securities, Douglas intends to sell 30% stock owner-

See **Douglas,** *page 105*

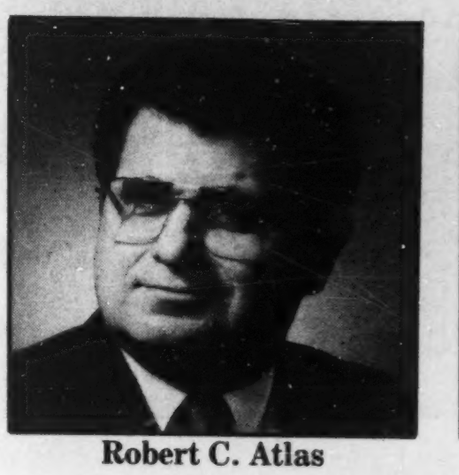
LATE NEWS

- PITTSFIELD, Mass.—Maxidrug, the U.S. deep discounter offshoot of the Canadian Jean Coutu Group, has postponed the opening here of its third store until October because of construction delays, according to Michel Coutu, head of Jean Coutu Group's U.S. subsidiary.
- NEW YORK—Rx Place, the deep-discount drug division of F.W. Woolworth, plans to open four new 27,000- to 28,000-square-foot stores in three Eastern states this fall, raising the chain's count to seven.
- DEERFIELD, Ill.—Baxter Health Care Corp. (formerly Baxter Travenol Laboratories) has broadened its top executive team, naming former executive vp and coo Wilbur Gantz president and eliminating his old position.

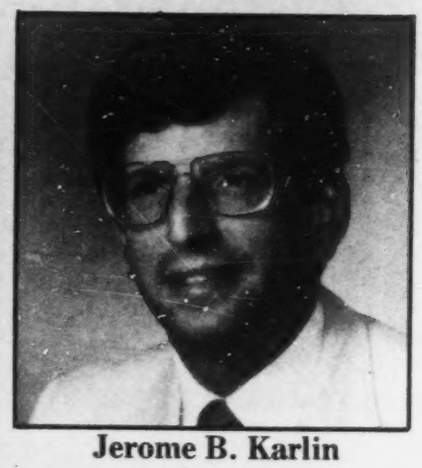
Tune in for Rx

What will consumers' reception be to TV hawkers selling drugs along with garden tools? Will pharmacists face viable competition from the tube? *Drug Store News* tunes in to plans by Home Shopping Network and Cable Value Network to jump onto the healthcare bandwagon. See page **IP17**

NEWS IN BRIEF



Robert C. Atlas



Jerome B. Karlin

Walgreen fills new corporate vp slots

DEERFIELD, Ill.—Walgreen Co. has announced several promotions following the restructuring of its drug store division.

Robert C. Atlas and Jerome B. Karlin will fill the newly-created positions of corporate vice president-drug store operations. The chain now groups its drug stores into eight regions, with four regional vice presidents reporting to each new corporate vice president.

David W. Bernauer has been named vice president for the Western Region, reporting to Karlin. Robert S. Arenson will assume Bernauer's former position of California/West district manager.

In other appointments, Walgreen has tapped Arthur H. Anagnostu for district manager of 15 stores in Florida's newly-formed Palm Beach North district, while Frank M. Noto will be responsible for Palm Beach South district. Jorge G. Morales has been promoted to Miami South district manager.

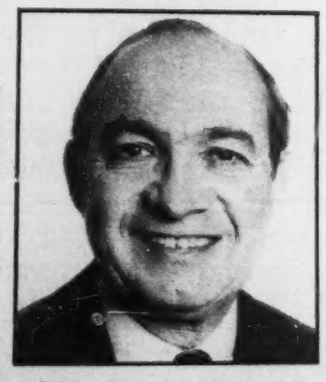
P. Jud Romans and Laszlo S. Pavel have been named district managers of the newly-created Memphis West and Cincinnati West districts, respectively. Donald A. Olson will continue as district manager for Cincinnati East.

Revco names two divisional mm's

TWINSBURG, Ohio — Revco has appointed Lee Rudibaugh and Valeria Stansfield as divisional merchandise managers. Rudibaugh, who assumed the job earlier this year, is responsible for purchasing OTC and H&BA, and Stansfield will buy candy, tobacco, household chemicals and paper products, it was announced by John Crowley, Revco's senior vp-marketing.

Rudibaugh joined Revco in 1986 as senior merchandise director of candy, tobacco, household chemicals and paper products.

Grass to get Torch of Liberty award



NEW YORK—Alex Grass, chairman and president of Rite Aid, will receive the Torch of Liberty Award from the Anti-Defamation League of B'nai B'rith, Drugs and Toiletries Division.

The award will be presented at the Hilton Hotel here Dec. 3 at a dinner-dance in his honor. The division last made the award in 1983, when it was presented to Harlan Steinbaum, chairman and president of Medicare-Glaser.

The award recognizes "a lifetime of leadership in fighting for equal rights in business and community affairs."

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Vol. 9, No. 19 September 28, 1987

Thrift upgrades its front-end, pharmacy systems chainwide

PITTSBURGH — Thrift Drug is making a major push in in-store computer systems this year.

The 400-store chain is replacing its 12-year old pharmacy computers with Convergent Technologies' NGEN, and is rolling out new POS registers after a successful 1986/1987 trial in ten stores

The chain began installing the NGENs with new pharmacy software in July, and will have the system in all stores by the end of October, according to Dan Krause, vp-data processing.

Since the NGEN has hard disk storage and greater processing power, it will support a variety of functions unavailable from the current system. The pharmacy system will use only 20% to 25% of NGEN's capacity, giving Thrift the opportunity to add functions.

New capabilities with NGEN include:

- improved editing functions, that will make third-party billing and pricing easier.
- PC spread sheet application.
- electronic mail for home office-to-store messaging.

Krause said store configurations will include single or twin CRT's, with label printers, and additional CRT's or printers can be added in special circumstances, such as in stores servicing nursing homes.

The JC Penney subsidiary is also installing NCR 2154's, with scanning, in up to 38 more stores this year. The installations and rollout will continue until a POS system is installed in all stores.

"We are committed to POS, but we will move prudently," said Ralph Proger, manager of Stores Coordination. A typical store will have four 2154 registers connected to a PC-6 that contains the price look-up file, collects sales transaction data, and communicates with the central office.

Proger said the POS system should pay for itself by allowing more accurate pricing, inventory control, tracking of sales patterns, shrinkage control, and by providing gross margin information.

Store managers have already said the time spent in end-of-day cash balancing has been cut by 30% to 45%.

The NGEN system provides an opportunity to have a higher level of integration between the pharmacy and front end than was previously possible, Krause said.

Since the PC6's communicate only with IBM computers at the central office, and the previous pharmacy terminals communicated with the office's DEC mainframes, there has been no chance for integration of POS with the current pharmacy system.

But the NGEN system could change that, since it will communicate to both mainframes.

"Integration of pharmacy and POS certainly seems attractive, and we are evaluating its potential with the intent of testing later this year," said Krause.

Krause is a seven-year Thrift associate, who formerly was an MIS director with the Gold Circle discount store chain, the Lane Bryant clothing chain, and Thrift's Treasury store division.

Bill's adds 25th drug store; starts installing Rx computers

LAFAYETTE, Calif. — Bill's Drugs is working hard to keep pace with the large chain stores crowding its Northern California market by opening three new stores this year.

Two stores—one in Santa Rosa and another in Dixon—have opened this summer, and a third replacement store will open in Willows in October, according to Bill Eames, founder, ceo and chairman of the 25-store chain. All three sites are newly built, a departure from the days when Bill's acquired many of its stores from Pay 'n Save.

The relationship with Pay 'n Save, however, has not completely ended. Last December, former Pay 'n Save Vice Chairman Cal Hendricks joined Bill's, becoming a one-third owner, president, chief administrative officer and chief financial officer.

It is part of Hendricks' job to oversee Bill's real estate department. According to Eames, Hendricks "strengthens our management so we can grow more."

Substitution stores

Although the company's actual store count has not changed much in recent years, Eames said the company has been opening a lot of substitution stores, which often replace one or more smaller locations.

Eames said the opening of three locations this year was almost too much, since two of the stores opened within weeks of each other. Future plans call for the opening of two to three stores a year, and for now Eames said the company will stick to operating in the Northern California region.

Since Bill's typically competes against large chains like Longs, Pay Less, Walgreens and Thrifty, Eames said he tries to give his stores "a little bit more service and personality."

Eames said Bill's also tries to combat the bigger chains "by merchandising around their weak spots," which he declined to name.

Eames said that as the executive in charge of merchandising and store operations he is "always trying to improve our customer service." Bill's also works at "keeping stores looking like drug stores."

Bill's also emphasizes cosmetic sales in its serviced departments. Eames said cosmetic sales are flat at the moment, and the department is one he'll be studying more through market research and experimentation.

Although the company is not yet ready for a computerized point-of-sale system, Eames said, Bill's is starting to install pharmacy computers. Within six months, he said, all stores should be on line and coordinated through the company's central office in Lafayette.

Eames said the system will handle billing—including third party.

Correction

Two headlines written for a Sept. 14 article on the Pennsylvania PACE program on page 59 and continued on 68 create the impression that the PACE program is being criticized. Actually, it is PACE which is criticizing the state formulary committee for costly delays in approving generic drugs.

NACDS conference set for Oct. 11-14

BOCA RATON, Fla.—Financial management methods will be the focus of specialized sessions during this year's NACDS Administrative/Operations Conference, scheduled for Oct. 11-14 at the Boca Raton Hotel and Club here.

Monday, Oct. 12, sessions will include a presentation by Michael Crooch of Arthur Andersen & Co. on the latest financial reporting requirements from agencies such as the Financial Accounting Standards Board and Securities and Exchange Commission and their impact on the chain drug industry. Also on Monday, James Govatos of Mercer-Meidinger-Hansen will offer an analysis of pension plans and review management methods used to monitor and assess the performance of investments in pension/profit-sharing funds.

On Tuesday, Tom Apker of PCS will lead a session on "Third-party Technology," in which he will discuss the technological and information systems available for managing third-party accounting and claims verification, billing concepts and new procedures available to pharmacists to validate claims.

For further information about the Ad/Op Conference, contact Jim Whitman at NACDS.

TRENDS

Store Formats

Mast prepares first deep discount store to give shoppers 'best of both worlds'

HENDERSON, N.C. — Mast Drug Co., a 13-store chain concentrated mostly in east-central North Carolina, hopes to give shoppers in the Lumberton area "the best of both worlds" when it opens its first deep discount store there early next year, said J. Larry Trull, Mast president.

Trull told *Drug Store News* the 15,000-square-foot store Mast is leasing and remodelling in a Lumberton strip center "will be a hybrid—a step between the traditional 8,000-square-foot drug store and the 25,000- to 30,000-square-foot deep discounter."

The new store will use lighting and color to create an "upbeat, modern flavor as opposed to a warehouse-type operation," said Trull, who added the mix would be "typical deep discount."

The deep discount price approach isn't foreign to Mast: "We have a couple of small stores that are virtually pricing in that way," but without the inventory level to match a true deep discounter, Trull said.

Educating customers

But the concept will be new to Lumberton shoppers, as the still unnamed Mast store will be the first deep discounter in the market. "We have to tell customers what a deep discounter is all about," said Trull, who said Mast plans to promote the opening with print and radio ads (there's no television station in the area) to describe the concept. Trull estimates there are about 75,000 people in the new store's drawing radius.

"There's not enough demand for a huge store. We're trying to create the deep discount concept in less space with a volume that the population base will support. We don't have the capacity to compete with a Phar-Mor or Drug Emporium on their own turf; we're adapting to carve out our own niche in the marketplace."

The Lumberton location, in a strip center anchored by Sears and discounter Roses, is adjacent to a major mall and near a hospital and doctors' clinic, which Trull expects will give the store's pharmacy operation an advantage. His goal is for pharmacy, which will have a drive-up window, to account for 20 percent of total store sales in the first year.

Buying on deal

The new store's manager/-operator will be responsible for most buying, which will primarily be done on deal, Trull said. Although the chain has a small warehouse facility at its headquarters, about 85 percent of its merchandise comes through N.C. Mutual Drug, a warehouse cooperative located in Durham.

Mast's main competitors in the area include Eckerd, Revco, an Ames discount department store with pharmacy and several independents. Lumberton, located in a farming area, and Fayetteville, which lies about 35 miles to the north, are the primary shopping areas in the region.

Mast chose the Lumberton site "because it was the right physical facility in the right cost parameters," Trull said. But he said future growth plans will be more specifically targeted to markets suited to the chain's two main thrusts: additional deep discount stores and smaller, apothecary-type units.

Mast's stores, which range from 2,000 to 8,000 square feet, are mainly in the east-central part of the state, with one store in Emporia, Va. Its Roanoke Rapids store is "very price-aggressive," Trull said. "It's in the same pricing ballgame as the deep discounters, but not in size or method of operation."

Bartell experiments with large format as part of four-store expansion in 1987

SEATTLE—Bartell Drug recently opened its 31st store here, completing the company's 1987 four-store expansion plan, which the chain expects will generate a 20 percent increase in annual sales.

The first of the four stores opened this summer represents the largest in the Bartell chain at 18,000 square feet. The remaining three stores come in at Bartell's norm of 10,000 square feet. Bartell's new stores—and existing stores—are all in the greater Seattle area.

Won't be a precedent

Bartell Drug President George H. Bartell, Jr. said the 1987 expansion is aggressive, and he said plans for 1988 "will, to a certain extent, depend on how well we did this year." The opening of the large University Village store will not be a precedent for the chain, as Bartell said the chain will primarily stick to the smaller store size.

Once the four new stores are up to speed, Bartell said, "I think perhaps it's logical" to estimate that the new stores could boost company sales by 20 percent. Although the privately-owned and family-run company does not divulge income figures, Bartell did acknowledge that the company's most recent year-end sales exceeded $50 million.

Since the University Village store exceeds the company's norm of 10,000 square feet, Bartell said the 97-year-old chain had to adapt its merchandise mix in order to fill out the store. While some categories—camera/photo and sundries—were expanded, Bartell said the chain also had to bring in new merchandise, including fishing gear and a movie rental department.

The store size and mix is a "one of a kind for us," noted Bartell. However, some of the new products may find their way into the smaller stores on a lesser scale.

Although the University Village format follows a typical drug store layout, Bartell has incorporated a unique design which differentiates the store from the competition. In both the cosmetics and electronics departments—each located in opposite front corners of the store—fluorescent signage and track lighting is used on a dropped gridwork to highlight each department.

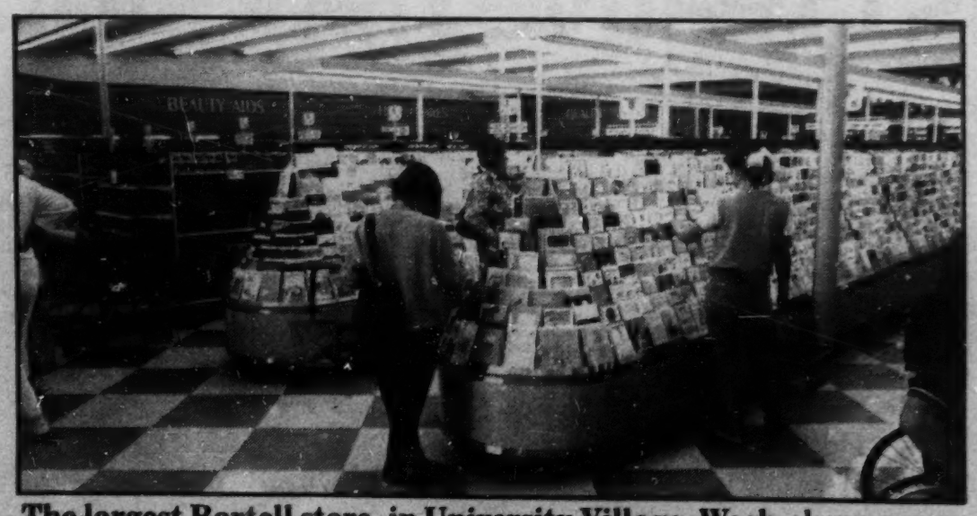
"We felt something of that type was important," Bartell explained of the special signage and lighting.

This added feature allows the store to project a progressive and upscale look, which blends with the community it serves.

Tailoring its stores to fit individual areas is something Bartell said the chain has always tried to do. And the task is not a difficult one, he noted, since the company is well-versed with its market.

Bartell said all funds for company expansion are internally generated, and the company borrows very little, since, as the president noted, "we tend to be relatively conservative financially."

Bartell added that the company is currently content to stay in the Seattle area, and will only venture beyond the city if the company cannot find enough suitable store sites.



The largest Bartell store, in University Village, Wash., houses new fishing gear and movie rental departments and expanded photo and sundries.

Rx in deep discounters

Deep Discounter	Total Stores	Rx Depts.	% Rx Depts.
Drug Emporium *Worthington, Ohio*	127	127	100%
Phar-mor *Youngstown, Ohio*	47	46	98
F & M *Warren, Mich.*	37	18	49
Drug Palace *(Rite Aid) Shiremanstown, Pa.*	27	17	63
Howie's/Carnevale *(Shoppers Drug Mart) Toronto*	16	16	100
Rock Bottom *Port Washington, N.Y.*	23	14	61
Dot *(Wal-Mart) Bentonville, Ark.*	11	11	100
A.L. Price *(Perry Drug) Detroit*	10	10	100
Pathmark Super Drug *(Supermarkets General) Woodbridge, N.J.*	9	9	100
Bud's *(Peoples) Alexandria, Va.*	9	8	88
Drug World *(SupeRx) Cincinnati*	8	8	100
Joel and Jerry's *Tampa, Fla.*	6	6	100
Drugs for Less *Birmingham, Ala.*	6	6	100
Drug Castle *(Brown) Springfield, Ohio*	5	5	100
Marc's *Cleveland*	10	4	40
Maxidrug *Massachusetts*	2	2	100
Heartland SGC *Massachusetts*	2	2	100
Jax's *(Fisher Foods) Cleveland*	2	2	100
Value Giant *(Pay Less NW) Wilsonville, Ore.*	2	2	100
Cost Cutters *(Community Distributors) Somerville, N.J.*	9	1	11
Ike's *(Malone & Hyde) Memphis*	3	1	33
Cecille's *Detroit*	7	0	—
Total Plus *(Dart) Landover, Md.*	5	0	—
Freddy's *(Melville Corp.) Woonsocket, R.I.*	11	N.A.	—

Source: Drug Store News *Research*

TRENDS

Store Formats

Different store formats make good neighbors

By Al Heller

DETROIT—High fences make good neighbors. Vastly different store formats within a market can do the same—or at least assure that competing merchants can coexist.

In the greater Detroit market, whose suburbs house some of the nation's wealthiest zip codes and the urban area some of the poorest, conventional drug chain and deep discount operators are able to rub shoulders and smile. Each can grow without cannibalizing the other because in part they appeal to different market segments.

Shared opinion

That is the shared opinion of F&M president Frank Newman and Arbor chairman Eugene Applebaum and executive vp Max Ernst, expressed to *Drug Store News* during a recent visit here.

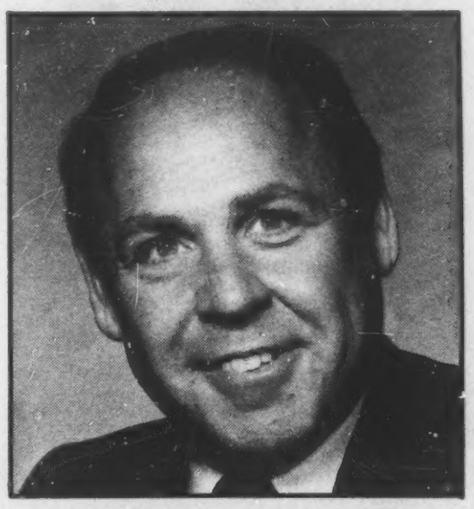
F&M has 11 stores here now and eyes 16 eventually. Arbor has 70 stores here, eyes 10 more this year and close to 150 in the state by 1992. Perry has about 130 conventional and A.L. Price stores in Michigan, concentrated largely within greater Detroit. There are also 56 K marts in its hometown, Meijers Thrifty Acres, 34 Borman's Farmer Jack stores which have pharmacies, and PACE and Warehouse Club membership operations, plus Target to enter soon.

Working with all

Ernst, calling Michigan the original hotbed of retail independence, says "we've learned to work with all" competing classes of trade.

Applebaum added, with hometown pride, "the saying about if you make it in New York you can make it anywhere, should be if you make it in Michigan you can make it anywhere."

Still, an improved business climate here provides fertile ground for retail growth here, he added. A better economy here enabled Arbor to pull back from its venture in the Carolinas, which was a hedge



Arbor's Applebaum

against a poor environment here a few years ago.

Newman noted his chain's focus on educated, well-to-do families who understand value and can spend, say, $100 to stock up. He said: "We can coexist with any retailer except our own clones."

As an example, he noted that PACE opened against one of his strongest stores near here. He was concerned about health and beauty aids, stationery and candy performance, despite the warehouse club's limited sku's. "But it has had no discernible effect on our business. It hasn't posed a real threat," Newman said.

He felt that is because "within their set of economies, they are looking for $40 and $50 transactions. They aren't focusing on H&BA, which is filled with $1 and $2 items."

"You wouldn't know the warehouse clubs were in town—judging by our results," Newman added.

Pharmacy not important

As far as the trend among some warehouse clubs to add pharmacy, Newman felt it wouldn't ever be an important part of their business. The clubs are in low-rent industrial sites, not near doctors and hospitals. "Since pharmacy is 60% acute care, people won't go 20 miles out of their way and pass 50 drug stores to save money. Also, everyone is competitive on maintenance drugs, so no one makes money on that."

The key to coexisting is knowing who you are and what you are, insisted Arbor's Ernst. "There are too many copycats in our industry. They are under pressure from Wall Street and others to produce numbers and have what other chains have. But you have to experiment, don't jump willy nilly," he added. Ernst cited optical centers as a venture he "knew would be bad. We'd never go near it. But others felt pressured to."

Commenting on F&M, Arbor's Applebaum said: "These guys understand they can coexist because they're very focused."

Combination stores increase pharmacy presence in 1987

Combo	Total stores	Rx. depts.	% Rx depts.	Combo	Total stores	Rx depts.	% Rx depts.
Kroger *Cincinnati*	1,060	429	40%	**Randall's** *Houston*	37	33	89.0%
A&P Supermarkets *Montvale, N.J.*	1,200	400	33	**Grand Union** *Elmwood Park, N.J.*	361	30	8.0
Safeway *Oakland, Calif.*	1,427	372	26	**Wegman's** *Rochester*	38	30	79.0
Big B *Birmingham, Ala.*	180	175	97	**Consumers Markets** *Springfield, Mo.*	36	22	61.0
Albertson's *Boise, Idaho*	456	169	37	**Smitty's Super Valu** *Phoenix*	22	18	82.0
SGC Foodstores *Woodbridge, N.J.*	201	130	65	**Stop 'n Shop** *Quincy, Mass.*	18	18	100.0
Lucky Stores *Dublin, Calif.*	584	95	16	**Bruno** *Birmingham, Ala.*	15	15	100.0
Giant Food *Landover, Md.*	144	89	62	**Erickson's Foods** *Hudson, Wis.*	15	15	100.0
Smith's Management *Salt Lake City*	89	80	90	**Carr's Quality Centers** *Anchorage, Alaska*	13	13	100.0
Shop Rite *(Wakefern Foods) Elizabeth, N.J.*	176	76	43	**Dahl's Food Markets** *Des Moines*	13	12	92.0
H. E. Butt *Corpus Christi, Tex.*	148	71	48	**Foodway** *Fayette, Ala.*	26	7	27.0
Furr's *Lubbock, Tex.*	105	50	48	**Sack 'n Save** *(Minyard's) Coppel, Tex.*	11	7	64.0
Raley's *Sacramento, Calif.*	48	48	100	**Dierberg** *Chesterfield, Mo.*	10	5	50.0
Vons *El Monte, Calif.*	180	46	26	**Randall's** *Mitchell, S.D.*	29	4	14.0
Giant/Farm Fresh *Norfolk, Va.*	67	44	66	**Sentry Markets** *Waukesha, Wis.*	91	3	3.0
Tom Thumb/Page *(Cullum) Dallas*	80	38	48	**Smithy's** *Springfield, Mo.*	3	2	67.0
Borman's Farmer Jack *Detroit*	83	34	41	**Roundy's** *Pewaukee, Wis.*	200	1	0.5

Source: Drug Store News Research

Tobacco

TRENDS

Marketing techniques maintain cigarette profits

Drug chains' merchandising experiments with cigarettes are paying off in the face of a declining market.

Chains are using new merchandising systems in their stores to increase cigarettes' exposure, and are featuring new high-margin "generics" that are steadily gaining market share. Add record levels of display and merchandise payments from vendors, and the cigarette department continues to be a profit center, even as unit sales slide.

"What we're seeing is that individual stores that are being creative are growing cigarette sales significantly," said Bob Partridge, a vp at Bercovich-Sosnick, a Santa Clara, Calif.-based candy and tobacco distributor.

Discounted three-pack

Bill's Drugs, of Santa Clara, for example, has started a promotion with B&S in which checkout clerks offer customers who are buying single packs a discounted three-pack value. Bill's started the program last month in most of its stores, said Partridge.

" We've found that 50% of customers will take advantage of it, and it doubles stores' sales overall," said Partridge. Branded packs selling at $1.25 are offered at three for $2.99 or $3.19, as part of a program B&S has used successfully with all claases of trade, Partridge said.

Several demographic factors support such a promo. The rapid rise of cigarette prices in recent years makes carton price points less appealing to consumers. It also seems sensible for most smokers to buy three at once, and save 75¢, since the average smoker goes through more than one pack a day, Partridge said.

LaVerdiere's Drugs of Maine has seen "dramatic" sales increases when it took cartons from behind the counter and put them onto downsized Philip Morris display racks in eight stores last year, according to executive vp Mike LaVerdiere.

The chain expects to put the fixtures in about 25 of its 60 stores within the next eight months, evaluating factors such as shrinkage and convenience store price competition on a store-by-store basis, said LaVerdiere.

Genovese Drugs in New York is posting 1987 category sales 13% ahead of last year, after expanding cigarette footage behind the front counter. By exposing a four-foot gravity-feed fixture for single packs, flanked on each side by four-feet of cartons, the chain sends a clear signal to customers that it is in the business, noted buyer Lenny Genovese.

Buyers say that a high level of brand switching is a key trend, with negative and positive implications for retailers.

"I've never seen more brand switching than in the last year," said B&S's Partridge, who said sales of some major brands are down 20%.

The switching stems partly from an unprecedented level of new styles being offered. It has created headaches for buyers seeking to keep styles that are in demand in stock, while maintaining the leanest inventory possible.

Move to generics

The advantage is that many brand switchers are moving to the generic styles, affording chains higher margins.

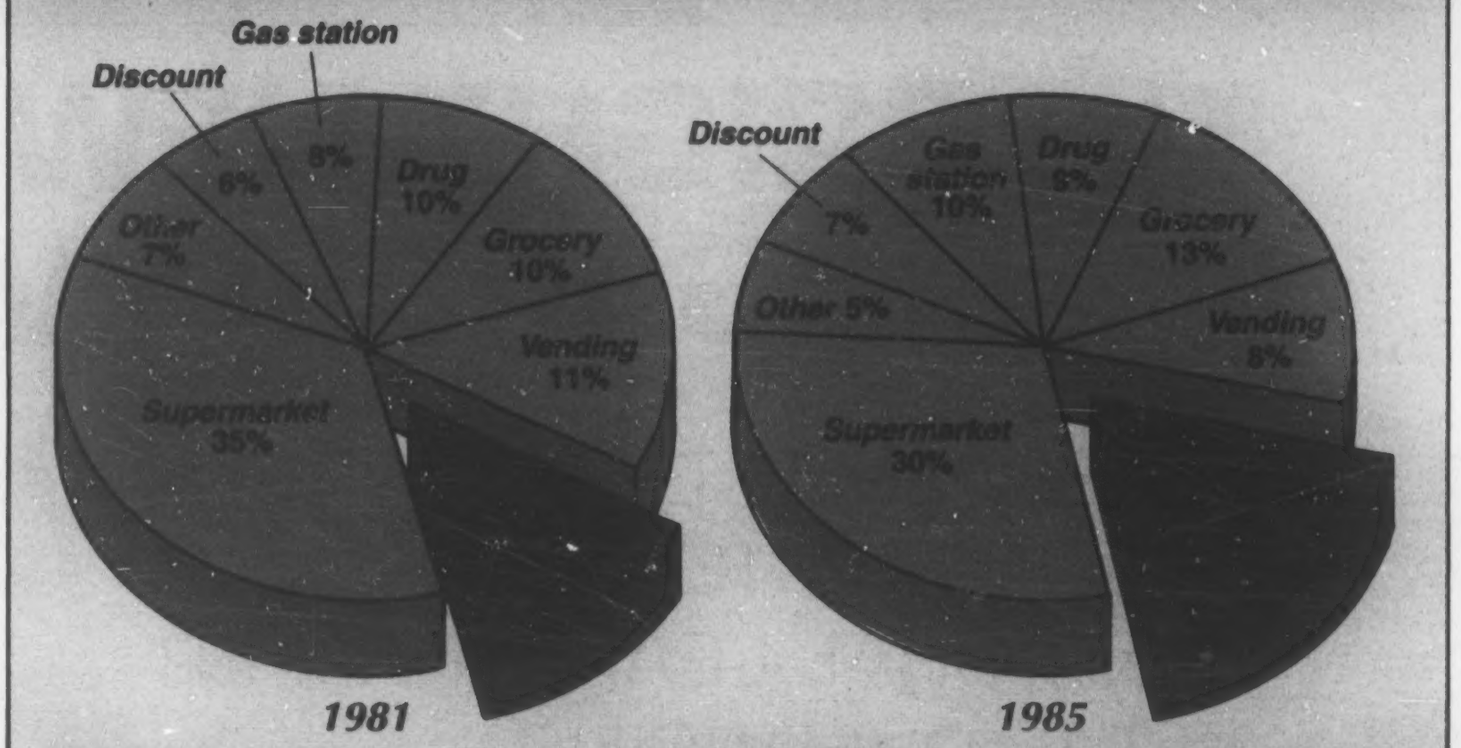
The price-value segment — black and whites, branded generics, and value 25's — continued to gain market share in 1987's first quarter. The segment posted a 9.7% share in the quarter, compared to its 9.2% share of the 1986 year, according to John Maxwell Jr., a tobacco analyst with Furman, Selz, Mager, Dietz, and Birney.

The segment's share in the first quarter had grown 1.5% on a 12-month basis, and price-value styles should account for 10.5% of industry sales by year's end, Maxwell forecast. He noted that this share could swell even more if branded prices are jolted further by new taxes.

Meanwhile, Maxwell reported total industry unit sales were down 4.4% in the first quarter, an acceleration of the 1% to 2% annual slide of recent years.

Buyers and distributors reported flat unit sales.

Convenience stores gain share of cigarette sales
(in units)



Source: Brown & Williamson, other trade sources

While health publicity is part of the reason, proliferating laws that ban public smoking are also permanently denting sales, said David Schneidman, president of Valley Stream Distributors, a Long Island, N.Y. jobber whose customers include Genovese, Walgreens and Austin Drugs.

"There are fewer places where you're allowed to smoke, and that's really affecting the marketplace," said Schneidman.

"You can't smoke in theaters anymore; those cigarette sales are lost forever," he said, noting also that some New York counties have banned or restricted smoking in malls and restaurants.

Chains are emphasizing in-store displays to promote the price-value offers. Branded generics are the hottest subcategory, buyers said.

Rix Dunnington — where total unit sales are flat — has posted increasing sales of branded generics, helped by floor displays of RJR's Doral, said senior vp Les Weiner.

The Massachusetts chain has also replaced overhead racks with RJR's new spring-loaded racks in 80% of its stores. Four-feet by five-and-a-half feet, they carry more styles and are more attractive than the overhead racks, Weiner said.

Top-selling branded generics include Philip Morris's Cambridge, Brown & Williamson's Falcon Lights, and Liggett & Myers' Quality Lights, buyers said.

But private label and black and white lines — which lost some share to branded generics in 1986 — have also caught on in some markets.

May's Drug in Tulsa, for example, has posted gains with private label brands, said Ron Spray, merchandise manager with the Tulsa tobacco and candy distributor Coremark.

May's sells Philip Morris-made cigarettes under the Best Buy name, and cigarettes called Major Brand made by Brown & Williamson, at about a $2.70 savings at retail on a carton against branded, Spray said.

Wellby Drugs and the Hannaford Bros. supermarkets gain significantly higher profits from generics over branded, due to generics' lower costs, said Hannaford head grocery buyer Tom Butterfield.

Butterfield positions price-value styles to sell at $2 to $2.50 a carton off branded, and projects the segment will account for 25% to 30% of Hannaford cigarette sales in one or two years, possibly more if prices keep rising.

Hannaford uses direct product profit models to figure the category's profitability.

Federal tax on cigarettes could double next month

Federal levies on cigarettes could double next month if Congress and the president endorse a tax bill included in a $18 million revenue package.

It would raise the federal tax on a pack to 32¢, compared to 8¢ in 1983.

If the cigarette tax isn't passed in some form in the revenue package—which faces an Oct. 1 deadline—it will be pursued as a separate bill, said Perry Plumart, a spokesman in the office of the bill's sponsor, U.S. Rep. Fortney "Pete" Stark (Calif).

The tobacco lobby sees slight chance for the bill's adoption as part of the revenue package.

'Very little sentiment'

"There is very little sentiment for it because it is part of a package of tax increases . . . that taken together would wipe out all the tax benefits the middle class gained under last year's tax reform act," said Walker Merryman, a vp with The Tobacco Institute, a group that lobbies for the tobacco industry.

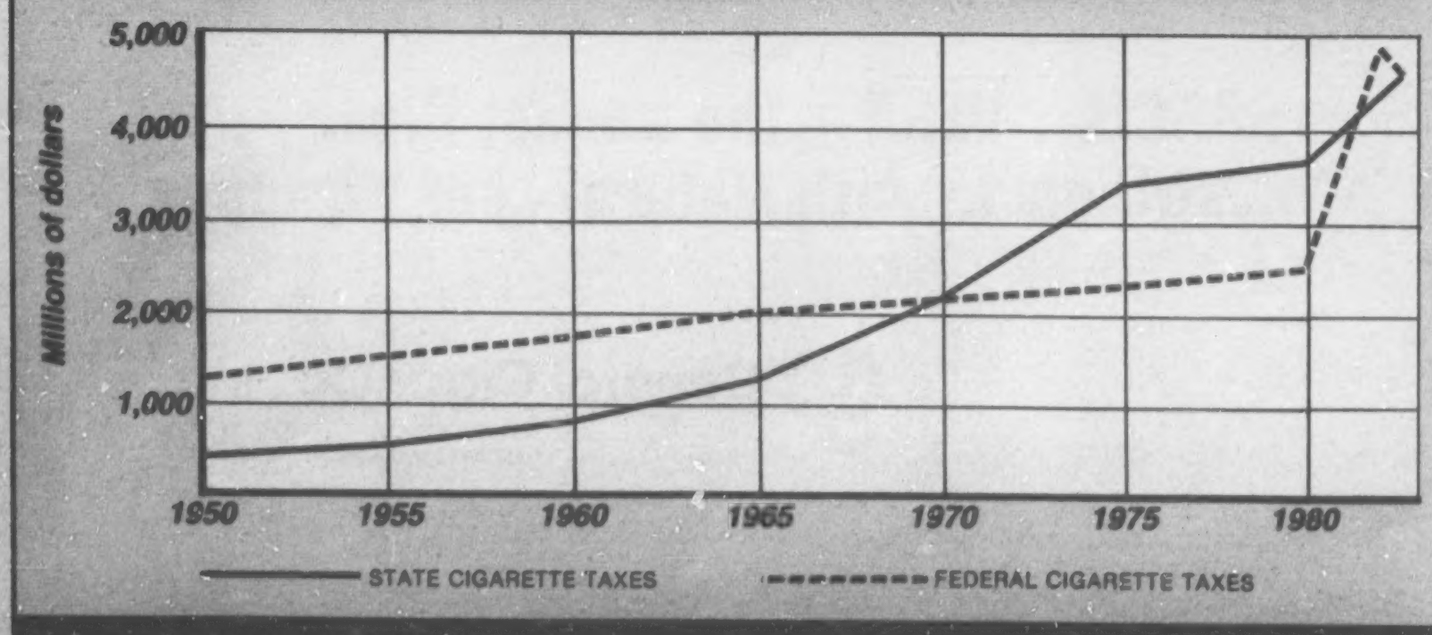
Combined with state taxes and sales taxes, the new federal tax would add yet another boost to burgeoning cigarette prices, that are driving consumers away from full-price brands to the price-value segment.

Meanwhile, a bill by U.S. Rep Mike Synar (Okla.) that would ban all ads and promotions of tobacco products is mired in a health subcommittee, chaired by Rep. Henry Waxman. John Hollar, a spokesman in Waxman's office said there is "a very good chance" the bill will be endorsed by the sub-group and sent to the full energy and commerce committee.

The Tobacco Institute's Merryman disagrees. He said he believes the bill is stalled in the subcommittee, since Waxman is a strong supporter of the bill, and "if he thought he could have a chance (to pass it), he would have moved it immediately."

The tobacco industry is also gearing up to fight a bill in the Senate co-sponsored by Sen. Bill Bradley (N.J.), and Sen Bob Chafee (R.I.) that would eliminate tobacco companies' rights to deduct advertising expenses as costs of doing businesss from their income taxes.

Federal taxes on cigarettes leap



Source: The Tobacco Institute, Washington D.C.

INSIDE PHARMACY

Computer Technology Survey

Technology provides a valued tool of the trade

Rxers judge computers by expectations, results

NEW YORK—Computers located in the pharmacy departments of major drug chains are quickly becoming almost as common as manual typewriters once were.

According to the *1987 Drug Store News Computer Technology Survey*, approximately one-quarter of the fifty chains surveyed reported having all their pharmacy departments equipped with pharmacy systems and more than two-thirds (68%) said that they would have all their stores up and running by next year.

Meanwhile, one-third reported 90% or more of their stores are already using pharmacy computers and approximately 80% of the chains said that they had at least 50% of their stores filling prescriptions on the new technology.

By next year, virtually all the chains said that at least 50% of their stores would feature pharmacy computer systems.

Low marks

Despite the fact that pharmacy computers have been around for more than a decade, pharmacists still give generally low marks of satisfaction to those features of a computer that mean the most to them.

A good example is the computers ability to trace third-party billings. According to the survey, 84% of the pharmacists asked considered this feature "very important" but only a little more than half (52%) said they were "very satisfied" with the computer's ability to race third-party billing.

Another area that expectations were low was in creating more time for patient counseling.

When the pharmacy computer first arrived on the scene, one of the major selling points was that it would free up pharmacists to do other things, like patient counseling. The survey revealed that 80% of the pharmacists did indeed think this was an important feature but less than half (48%) have apparently discovered that the demand on their time from filling prescriptions has not been lessened with the help of a computer.

Favored features

While expectations were low in some areas, other features of a pharmacy computer got relatively good grades.

Of all the features available from installing a pharmacy computer, price updates received the highest score with all the pharmacists picking this as being the most important. And overall, a large proportion (84%) said they were satisfied with the computer's, or service company's, performance.

Two features were tied for second place, filling in third-party forms and tracking patient profiles. Ninety-six percent of the pharmacists polled felt that both of these features were of paramount importance, with the tracking of patient profiles receiving better grades (92% of the pharmacists thought this service was very satisfactory with 84% saying that they were very satisfied with the way their computer handled third-party claim forms).

Other services that at least 50% of the pharmacists polled thought important included gross margin analysis (reported by 76% of the pharmacist with a 52% satisfaction level), tracking possible drug interactions (72% reported, 60% satisfaction level), determining possible side effects and adverse reactions (72% reported, 52% satisfied), reducing shrink (56% reported, 32% satisfied) and controlling inventory at store level (56% reported, only 24% satisfied).

Marketing tool

The pharmacy computer has not only become a boon to busy pharmacists, it has also apparently become an effective marketing tool being used by chain executives to promote their stores.

According to the survey, 87% of the chains polled said they are using their pharmacy computer systems as a marketing and advertising tool.

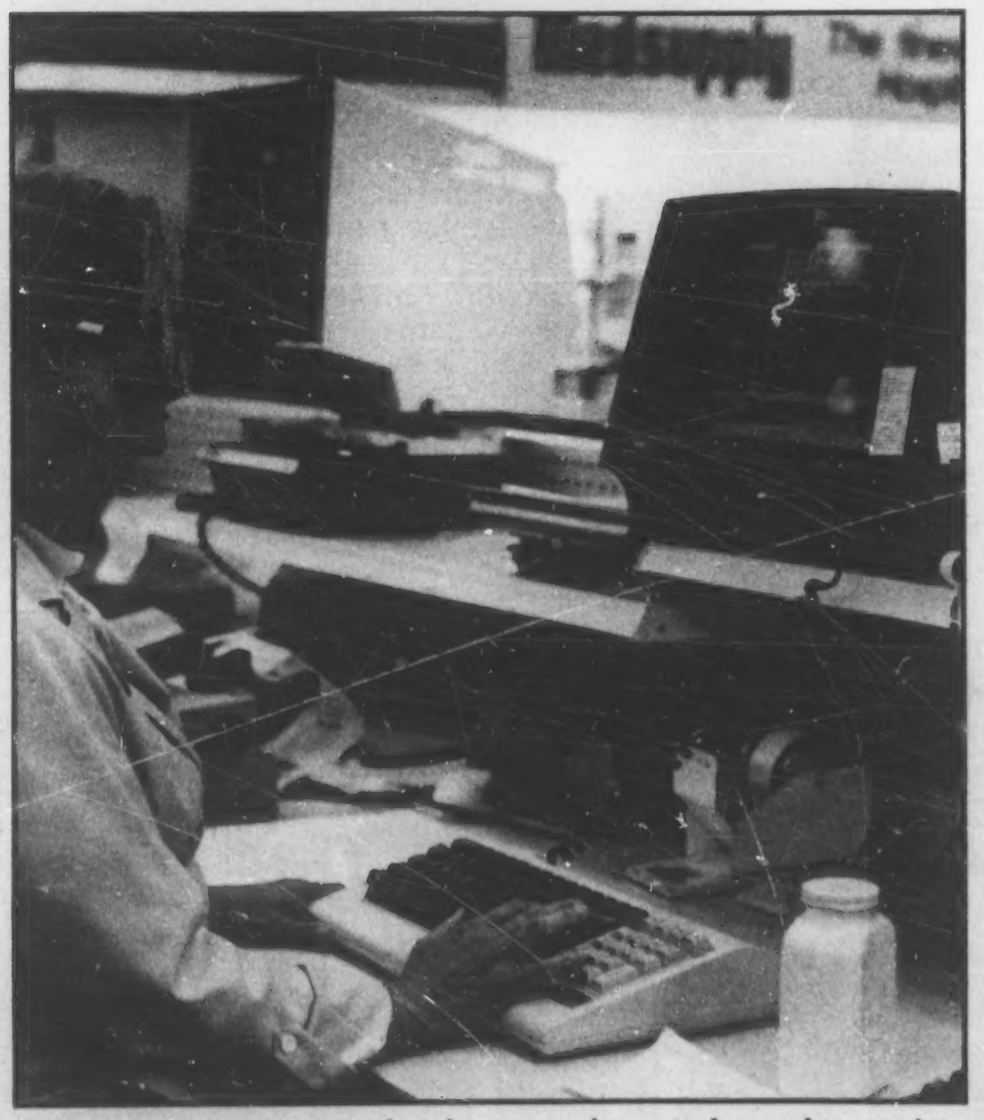
The majority of chains said they were promoting their pharmacy computer systems through newspaper advertising and circulars (reported by 75% and 70% of the chains surveyed respectively). More than half (55%) said they were using television spots to promote their systems while only 25% reported radio as their desired advertising medium and 40% were using direct mail.

Nearly two-thirds of the chains said their ads concentrated on basically four areas that dealt with their pharmacy systems. They included patient safety and security (reported by 68% of the chains surveyed), fast in and out service, efficient processing of prescriptions, and ease of prescription renewal (the last three items were reported by 64% of the chains). To a lesser extent, other advertising themes included the unique service the chain is contributing to the market by having a pharmacy computer and cost savings to the consumer.

No quick move

While it looks as though the pharmacy computer will be a common sight in most drug stores by 1990, the survey revealed that most chains are not moving quickly to integrate it with front-end terminals.

Only 13% of the chains surveyed said they are currently using their pharmacy computer as a front-end computer while an overwhelming majority (87%) said that they are not using their pharmacy computer to record front-end transactions.



The pharmacy computer has become a boon to busy pharmacists and will be a common sight in most drug stores by 1990.

Retailers rate their satisfaction with Rx computer applications

Application	% of Retailers rating this "very important"	% of Retailers "very satisfied with program"
Price Updates	100	84%
Filling in third party forms	96	84
Tracking patient profiles	96	92
Tracing third party billings	84	52
Creating more time for patient counseling	80	48
Gm analysis	76	52
Tracking possible drug interactions	72	60
Determining possible side effects and adverse reactions	72	52
Reducing shrink	56	32
Controlling inventory at store level	56	24
Providing marketing tool to induce new business	48	28
Notifying patients of drug recalls	40	40
Tracking inventory against sales	40	24
Employment incentive	40	48
Labor scheduling	12	16

Source: Drug Store News *1987 Computer Technology Study*

Most frequently used media for Rx computer advertising

Ad medium	% of Respondents advertising Rx computers who use this medium
Rop Newspaper	75%
Circulars/Inserts	70
Radio	25
TV	55
Direct mail	40

Source: Drug Store News *1987 Computer Technology Study*

Of all the features available...price updates received the highest score with all the pharmacists picking this as being the most important.

Use of Rx computer as front end computer

% Using Rx computer as a front end computer also	13%
% Not using Rx computer as a front end computer also	87%

Source: Drug Store News *1987 Computer Technology Study*

Most popular themes for Rx computer advertising

Theme	Percent of respondents who rate as "extremely important to stress" in their ads
Patient safety/security	68%
Fast in & out service	64
Efficient processing of scripts	64
Ease of script renewal	64
Service superior to other pharmacies	48
Service unique to market	36
Cost savings for consumer	12
Ability for consumers to have scripts filled in any stores owned by the company	4
Not available or not applicable	24

Source: Drug Store News *1987 Computer Technology Study*

Computer Technology Survey

INSIDE PHARMACY

Computer revolution reaching the front end

Executives see move as unavoidable to survive and adapt in changing market

By James Frederick

The computer revolution has arrived at the front end of the nation's chain drug stores. The automation wave that swept through retail pharmacy over the past decade has now begun to transform the way all store merchandise is bought and sold.

The transformation to electronic point of sale systems and computerized inventory control has been one of the most expensive and time-consuming tasks the chain drug industry has ever tackled. The effort now being undertaken by dozens of major chains includes the installation of in-store host computers and scanner-ready POS terminals or electronic cash registers capable of recording detailed information on sales by item and category; in some cases, scanners are also being rolled out on a chainwide basis. The effort is costing the industry hundreds of millions of dollars.

Nevertheless, the rewards of such a Herculean effort are becoming increasingly apparent to industry executives. Indeed, most now see such a transformation as unavoidable, a recognition of the need for survival and adaptation in a changing market.

Tremendous opportunity

On a more positive note, most drug chains view the shift to total store automation as a tremendous opportunity to boost store productivity and enhance market position. As one MIS executive put it: "The scanners in our test store are giving us so much information it will take us months or years to figure out what to do with it. But the uses of that information to our store operating and merchandising procedures are almost limitless; we're limited only by our imaginations."

The benefits of an integrated, programmable store automation package don't end there, of course. Taking their cue from the supermarket industry, which is at least 10 years ahead in the use of front-end POS systems, chain drug retailers also point to labor savings, improved customer service, improved store management capability, and enhanced communications between stores and headquarters as among the biggest pluses of automated POS.

"The inventory control aspects of a POS system are terrific, and they can lead us to a DPP (direct product profitability) system. But that's only part of what we're looking for," said John Frazzini, vp of data processing for Perry Drug Stores, earlier this year.

Multi-store test

In a multi-store test of integrated store automation begun last winter, Perry is looking at a full range of uses for store-driven POS. Among them, Frazzini said, are speedier checkout for improved customer satisfaction, the elimination of price stickering of most merchandise, the use of scanners for credit card verification and price lookup, the collecting of customer demographic data, and the reduction of staff hours for cashiers and stock clerks.

Perry is using an upgradable system developed by Stores Automated Systems Inc. (SASI), with numerous enhancements developed by the chain's MIS team. Drawing on that software, the system can track individual sales movement and even gross profit margins for almost every item in the chain's inventory system, comparing performance and profitability on an item-by-item and store-for-store basis.

Like other chains, Perry is aiming at a more responsive, profitable merchandising system with its automation, based on the wealth of sales data its POS test stores can now generate at the registers. "The information is there; now we have to sit down and decide what to do with it," Frazzini said. "Distilling the data we get is the key to success."

Supermarkets ahead

Supermarket chains, which converted to checkout scanners industry-wide more than a decade ago, are still far ahead of most drug chains in analyzing and translating sales data into improved store productivity. Hannaford Bros., for instance, massages scan data for some 17,000 items sold in its 65 supermarkets with a powerful mainframe, generating detailed analysis of gross margin return on investment (GMROI). The data is used to calculate inventory handling costs, turns per item and profit contributions.

Discount chains are also moving aggressively to automate point of sale, merchandising and inventory control functions. K mart, the industry leader, recently allocated $1 billion for a massive store and headquarters automation effort designed to speed checkout lines, enhance corporate-to-store communications, replace and upgrade POS equipment, boost store management capabilities and fine-tune merchandising efforts.

The primary goal, according to K mart officers, is to improve customer service. Thus, the retail giant will spend $500 million on new POS equipment and a satellite communications system for its 2,100 stores. An equal amount will go to software, labor and computer-processing support systems for improved store and headquarters automation.

Preparing for years

Some drug chains have been preparing for the POS information bonanza for years, gearing up their MIS departments in a gradual conversion to computer-aided planogramming based on in-depth item movement reports. One early pioneer in store automation, Pay Less Drug Stores NW, has been generating computerized sales reports for merchandise managers far longer than most chains, using data generated at the checkstand and sent via electronic mail from in-store computers to a headquarters host computer.

"We've used computers heavily in this company to draw up our merchandise plans, and I'd say 95% of the store is controlled through schematics we draw up with the aid of computerized reports," said a Pay Less executive.

In varying degrees, many drug chains have moved beyond pharmacy automation, either through integrated, comprehensive store computer systems which link the front end with the pharmacy and the manager's office, or through POS checkstand systems which track product sales and send the information to headquarters via nightly telephone polling.

Aggressive movers

Leading the revolution are major chains like Walgreens, Perry, Thrifty and Rite Aid, all of which have embarked on total store automation programs. But smaller regional chains, including Big B, Arbor Drugs, Begley, Wellby Super Drug, Fay's and Pay 'n Save, are also moving aggressively to enhance their POS capabilities.

Fay's, for instance, has already installed electronic data capture checkout chainwide, and is now testing scanners. And Arbor will shortly launch its own test of POS systems in "a minimum of three and a maximum of six stores," according to chairman Eugene Applebaum.

"Our computerized sales tracking system is already good, but we think a POS system will make it better," Applebaum said.

While even smaller drug chains like Thrifty/White and Lewis Drug have rolled out sophisticated electronic checkstand systems, the industry has generally been cautious in approaching scanning systems. For many chains, questions still remain about the cost justification and need for scanners in a drug store environment, where customer traffic rarely approaches that of a supermarket. Drug chains are also largely undecided about the relative merits of hand-held vs. slot scanners, and the correct positioning of checkstands following scanner installation for maximum customer traffic flow.

Testing scanning systems

Nevertheless, most chains have left the door open by installing POS registers that are scanner-ready, or easily upgradable to scanning systems. Now, industry leaders like Revco and Walgreens have begun testing scanning systems for eventual chainwide installation.

Walgreens will begin linking scanners to its chainwide Walgreens Information Network (WIN) store automation package next year, with both programs slated to be completed by the early 1990s. And Revco, which recently finished outfitting all 2,050 of its drug stores with scanner-ready electronic cash registers, is now testing various scanning systems.

The industry leader in scanning and store automation, however, is Rite Aid, which now has slot scanners and integrated management computers in more than 500 stores. The systems give Rite Aid stores a competitive edge while boosting productivity in labor and merchandising, according to chairman Alex Grass.

Looking ahead

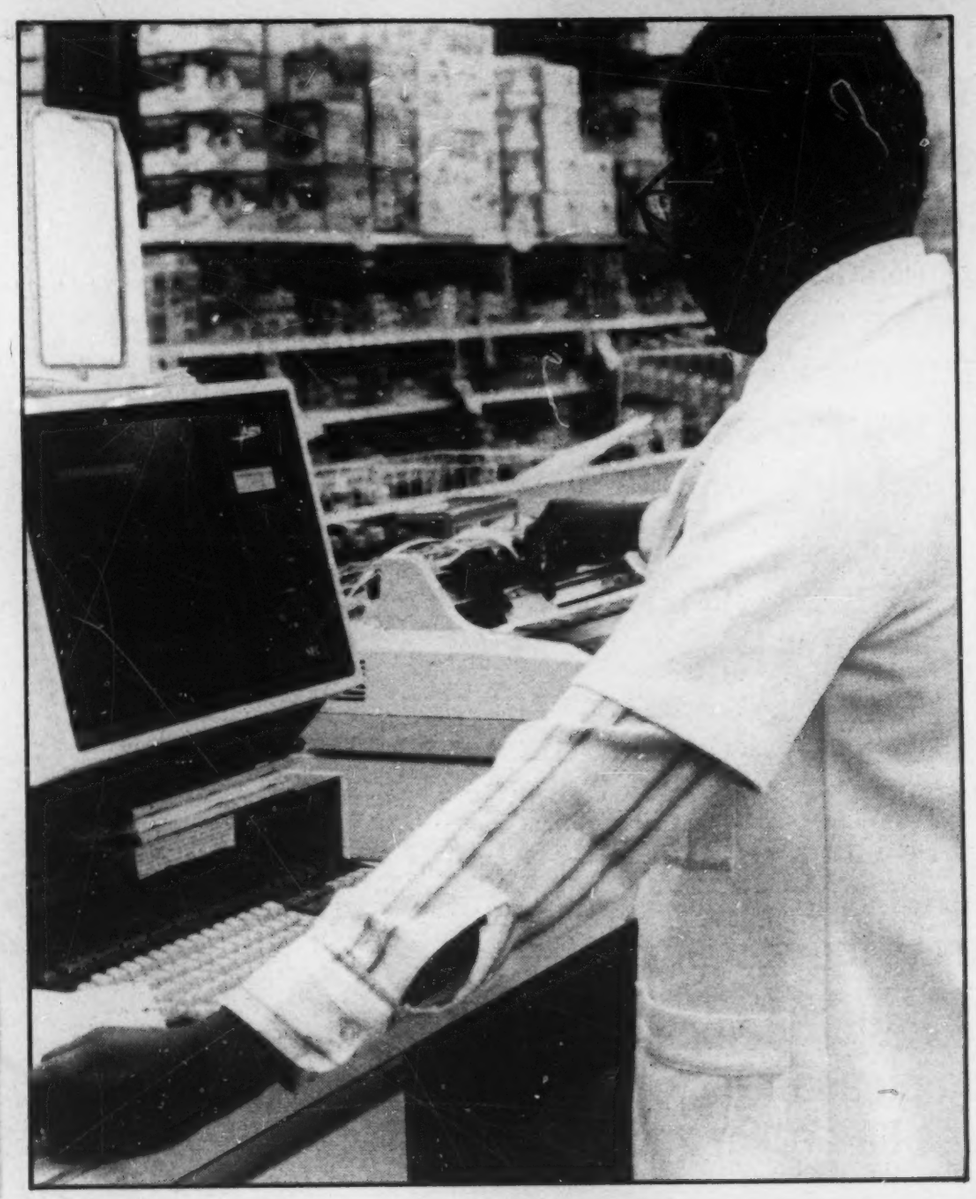
What of the future of store automation? Computer industry forecasters predict that POS technology will function as just one element of a truly integrated store environment. Merchandising, credit authorization, accounting, security and instant auditing will all be tied more closely together, say manufacturers, and computer-to-computer inventory replenishment systems should be common.

Computer software vendors like SASI and National Data Corp., maker of the DataStat-PC pharmacy system, argue that the integrated drug store automation packages they currently provide already tie together many of those functions.

"Each of these functions could benefit from data generated by the others," said Mark Braunstein, group vp and general manager of NDC's Health Care Data Services division. "(But) all of these functions must be automated using one computer, one data base, one highly integrated set of programs and one vendor committed to make the whole thing work."

INSIDE PHARMACY

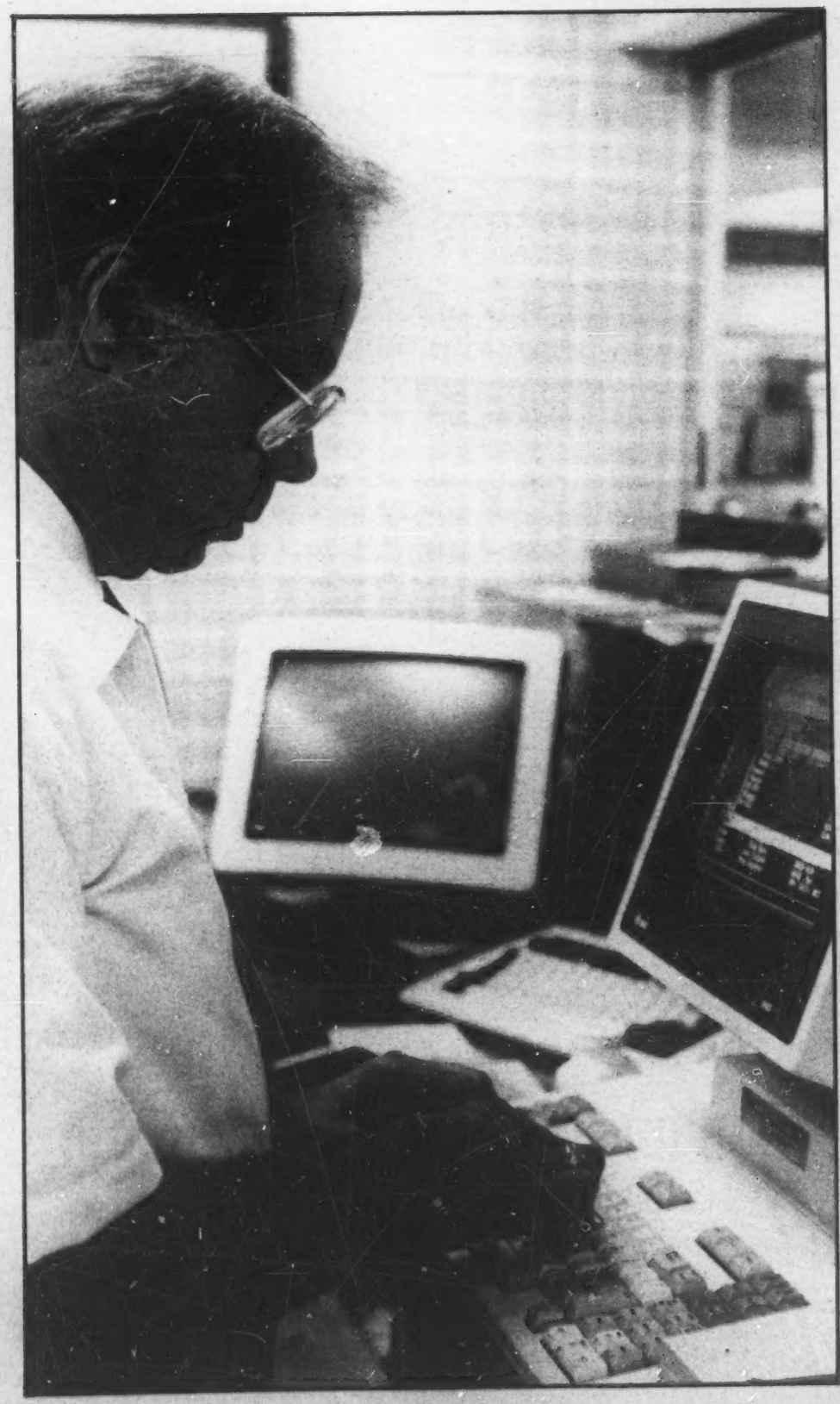
Computer Technology Survey



Percent of chain drug companies using Rx computers as marketing/advertising tool

% Marketing Rx computers = 87%
% Not marketing = 13%

Source: Drug Store News *1987 Computer Technology Study*



'87 Rx computers in chain drug stores

Company	Total Rx depts. 4/87	Rx stores with pcs in pharmacy 4/87	Percent of total 4/87	Total Rx depts. 4/88	Rx stores with pcs in pharmacy 4/88	Percent of total 4/88
Revco, *Twinsburg, Ohio*	1,986	1,153	58	1,986	1,986	100
Eckerd, *Clearwater, Fla.*	1,600	1,500	94	1,600	1,600	100
Rite Aid,+ *Shiremanstown, Pa.*	1,613	869	54	2,030	1,650	81
Walgreen's, *Deerfield, Ill.*	1,275	1,275	100	1,375	1,375	100
Peoples, *Alexandria, Va.*	850	359	42	850	550	65
Shoppers Drug Mart, *Toronto*	570	240	42	600	420	70
CVS, *Woonsocket, R.I.*	442	260	59	500	500	100
Thrift, *Pittsburgh*	400	380	95	425	405	95
Hook, *Indianapolis*	339	339	100	350	350	100
SupeRx, *Cincinnati*	321	321	100	330	330	100
Perry Drug, *Detroit*	216	216	100	250	250	100
Longs, *Walnut Creek, Calif.*	207	205	99	220	218	99
Pay Less NW, *Wilsonville, Ore.*	205	205	100	235	235	100
Boots, *Toronto*	182	79	43	182	110	60
Big B, *Birmingham, Ala.*	171	171	100	200	200	100
Fay's, *Liverpool, N.Y.*	156	156	100	170	170	100
K & B, *New Orleans*	147	112	76	148	148	100
Medi-Save Pharmacies *Baton Rouge, La.*	144	49	34	160	71	44
Pay 'n Save, *Seattle*	134	75	56	145	145	100
Jean Coutu Pharm Escomptes, *Quebec*	106	106	100	130	130	100
Big "V," *Ontario*	92	85	92	100	100	100
Medicare-Glaser, *St. Louis*	89	87	98	90	88	98
Genovese, *Melville, N.Y.*	83	80	96	N.A.	N.A.	N.A.
Dart, *Landover, Md.*	80	0	0	85	30	35
Kerr, *Raleigh, N.C.*	72	72	100	84	84	100
Kent, *Mississauga, Ont.*	70	20	29	72	32	46
Harco *Northport, Ala.*	66	54	82	73	73	100
Snyder, *Minnetonka, Minn.*	57	54	95	60	57	95
Thrifty/White Drug, *Minneapolis*	53	17	32	53	50	94
Taylor, *Louisville, Ky.*	45	45	100	46	46	100
Carls, *Rome, N.Y.*	45	45	100	45	45	100
Standard, *Richmond*	44	44	100	45	45	100
Wellby Super Drug, *Portland, Maine*	44	44	100	49	49	100
Begley Drug *Richmond, Ky.*	43	43	100	50	50	100
Cumberland, *Montreal*	35	35	100	55	55	100
Duane Reade, *New York*	30	12	40	33	33	100
Kinney Drug, *Gouveneur, N.Y.*	29	29	100	32	32	100
May's, *Tulsa, Okla.*	27	27	100	29	29	100
Bartell, *Seattle*	27	15	55	30	30	100
Bill's, *Lafayette, Calif.*	25	0	0	25	25	100
Community Distributors, *Somerville, N.J.*	22	22	100	25	25	100
Crown Drugs, *Advance, N.C.*	19	19	100	22	22	100
A.D. Clark, *Los Angeles*	19	0	0	19	N.A.	N.A.
Peterson, *Oakfield, N.Y.*	18	14	78	18	17	94
Douglas, *North Providence, R.I.*	12	12	100	15	15	100
Austin Drug, *East Meadow, N.Y.*	9	9	100	9	9	100
Kopp, *Altoona, Pa.*	7	7	100	7	7	100
Arthur's, *Hartford*	7	7	100	8	8	100
Defender, *Tucson, Ariz.*	6	6	100	6	6	100
Lewis, *Sioux Falls, S.D.*	6	6	100	6	6	100

+ *Includes Gray/Drug Fair which Rite Aid recently acquired*

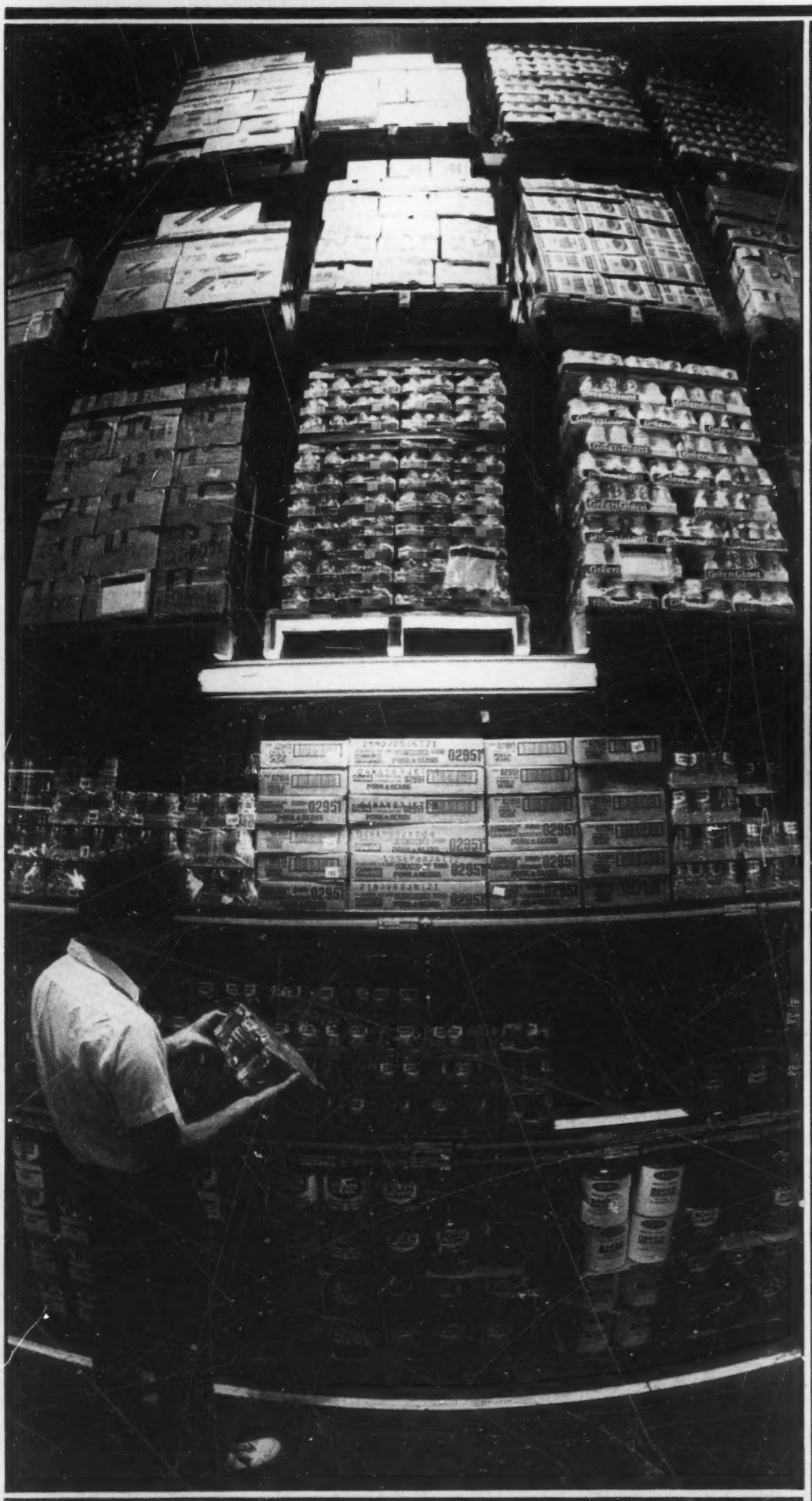
Source: Drug Store News *1987 Computer Technology Survey*

FOOD MERCHANDISING

FM

FOR NON-FOOD RETAILERS

Winter, 1987



Special Report: Makro Wholesale Clubs: Using Groceries to Court Shoppers

Alcoholic Beverages: Drug & Discount Chains are Doing Great with Wine Coolers, Fruit Flavored Wines & Cordials.

Pet Care: The Selling Opportunities are in Accessories and Foods

How K & B Drug adds "zest" to liquor ads

Sami Seasonality Study: What to Promote next Summer.

Food For Thought

New product ideas to pump sales in pet care & alcoholic beverages 5

News Basket

K mart and K & B Drug use Coke to hype store traffic 6

Sami: Category seasonality report

The foods and nonfood to promote next summer 9

FM Profile: Grocery Trends at Makro's Wholesale Clubs

As the nation's seventh largest wholesale club chain, Makro is using service and brand name groceries to court per store food sales of over $40 million a year. 11

Pet Care Sales Trends

How & why drug and discount chains are diversifing their mix of pet care products. Margins and sales are both benefitting 19

Alcoholic Beverage Sales Trends

Overall category sales are down, but sales of wine coolers, imported beers, and liquors and wines made with peaches and other fruits are booming. 23

K & B's Liquor Strategy

Beverage Buyer Stan Bevis: Ways to build sales while maintaining margins 29

Best Selling Categories of Summer

The chart below lists the best selling categories in food stores for the months of June, July and August.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ended in August 1986.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.

FOODS AND GROCERIES: BEST SELLERS OF SUMMER

(Averaging three year index ranking)

June

Foods	Index ranking
Fruit pectin	250
Freezer bars	231
Barbecue sauce	155
Canned prepared salads	152
Relishes	145
Iced tea mix/liquids	142
Pork & beans	137
Instant tea	130
Soft drink mixes	126
Mustard	121
Reg. soft drinks	121
Lo-cal salad dressing	120
Juice/juice concentrate	120
Canned meat spreads	120
Canned sausage/frankfurters	120
Lemon/lime juices	123
Meat sauce	118
Pourable salad dressings	118
Chips/snacks	118
Nonfoods	
Insect repellents	235
Charcoal	198
Charcoal lighter	180
Car care products	136
Insecticides	136
Plastic flatware	132
Paper/plastic plates	124
Paper/plastic cups	118
Soil/stain removers	118
Mildew removers	114
Bleach	113
Window cleaners	112
Soap/bubble bath for children	112

July

Foods	Index ranking
Fruit pectin	276
Freezer bars	229
Vinegar/cooking wines	165
Iced tea mix/liquids	154
Barbecue sauce	147
Canned prepared salads	147
Relishes	142
Soft drink mixes	137
Pork & beans	135
Reg. soft drinks	132
Instant tea	128
Lemon/lime juices	123
Canned shrimp	121
Potato chips	121
Mustard	120
Spoonable salad dressings	119
Lo-cal soft drinks	119
Cocktail mixes	119
Meat sauce	118
Nonfoods	
Insect repellents	249
Charcoal	201
Charcoal lighter	183
Insecticides	138
Plastic flatware	136
Car care products	135
Paper/plastic plates	127
Soil/stain removers	124
Paper/plastic plates	123
Disinfectants	113
Bleach	113
Tampons	113
Moist towelettes	112

August

Foods	Index ranking
Freezer bars	186
Vinegar/cooking wines	176
Fruit pectin	170
Iced tea mix/liquids	141
Soft drink mixes	124
Reg. soft drinks	122
Bottled water	121
Lemon/lime juices	119
Instant tea	117
Baking powder/soda	116
Granulated sugar	116
Lo-cal soft drinks	115
Choc candy bars	112
Canned tuna	111
Packaged tea	111
Canned shrimp	110
Packaged gum	110
Cocktail mixes	110
Nonfoods	
Insect repellents	161
Charcoal	135
Insecticides	131
Soil/stain removers	125
Charcoal lighter	122
Food storage bags	122
Rug cleaners	116
Bleach	116
Upholstery cleaners	114
Car care products	113
Mildrew removers	112
Window cleaners	111
Soap/bubble bath for children	110

Source: SAMI Seasonality Report

How Pet Care Performs

With drug and discount stores expanding facings and ads for pet care, sales are up 10% and better in most chains

As drug and discount store chains strive to expand their convenience appeal to local shoppers, more space and more feature activity is being focused on the pet food category.

Buyers for both drug and discount stores say they are continuing to advertise the best selling brands of pet food heavily to lure value conscious shoppers into their stores.

At the same time, most discount store chains are expanding their pet food departments to include a wide variety of pet accessories including many items and brands previously only available before in pet supply stores (see accompanying story).

Drug chains, for the most part, are continuing to rely on Hartz and Sargeant for most of their everyday pet accessories, but some drug chains like Osco, Walgreen's, Revco, etc., are also starting to feature offbeat types of pet accessories like pet transporters or automatic food and water dishes in their ads.

When pet food buyers and store managers talk about pet care, however, they still tend to stress the traffic building potential of the brand name food items like Purina, Carnation, Alpo, Gaines Burgers, 9 Lives, etc.

Most drug and discount store pet food buyers say that the core of their pet food departments is still the food section, and in most chains, foods for dogs, cats, birds and small animals usually accounts for between 50% and 80% of both space allocations and sales.

Drug chains still have a preference for carrying and promoting canned cat and dog foods, especially Purina, Nine Lives, Carnation, Kal Kan and Alpo.

Discount store chains also promote the canned foods often, but they are also inclined to offer especially low prices on the 25-lb. bags of dry dog food as well as the 10-lb. bags of cat food and the large size bags of kitty litter.

Discount chains are also more aggressive in carrying foods and accessories for birds, small animals and rodents. Some also sell live birds and small animals, but in the drug store industry, only one chain

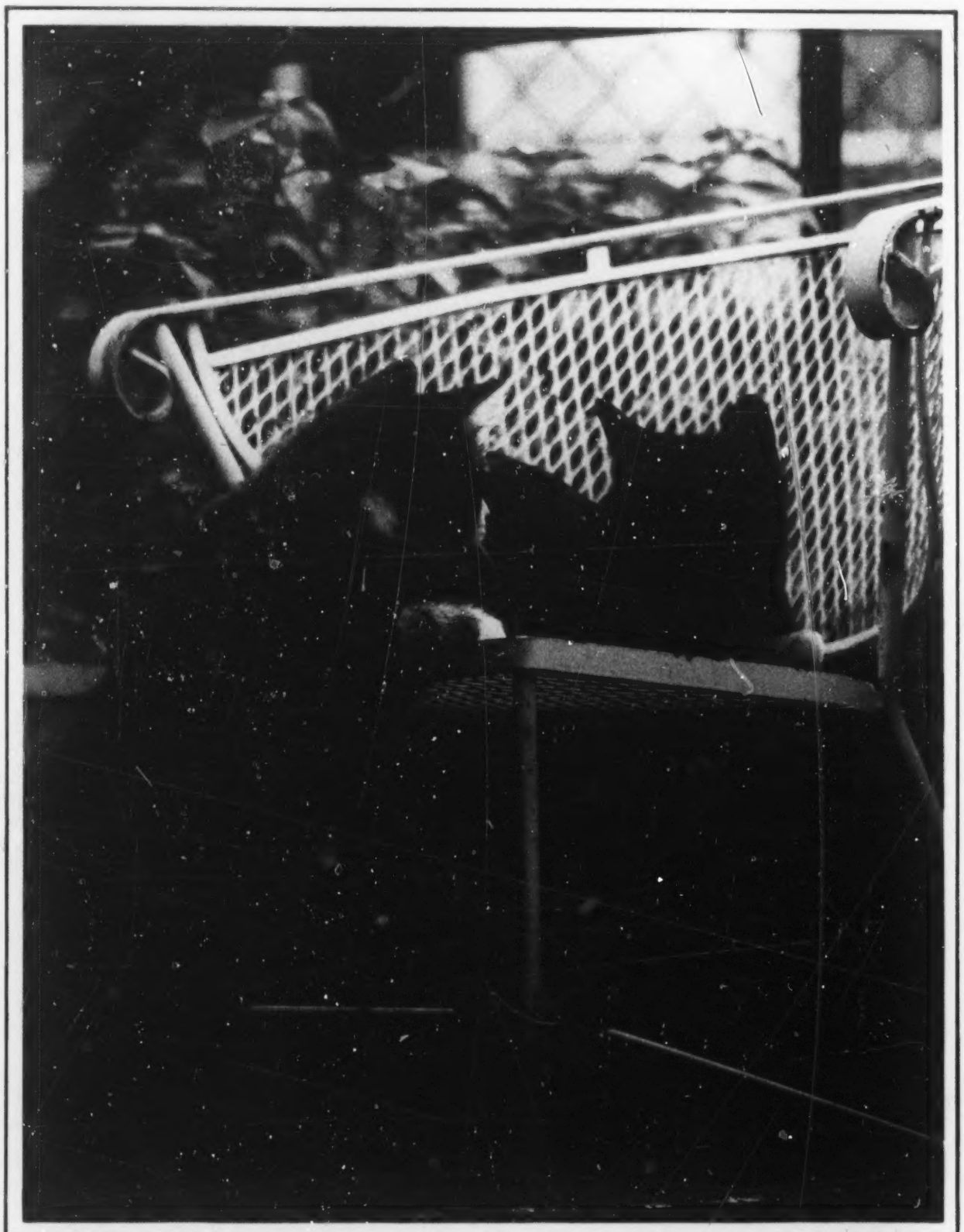


Photo by Ray Garland

Half of all American households now own one or more pets. Nonfood chains are courting that shopper by stressing price, convenience and assortment.

Growth in Pet Food Sales by Retail Outlet

Retail Outlets	1986 Est Sales (billions)	% change	1985 Est Sales (billions)
Food stores	$5.250	3.0%	$5.100
Pet Supply Stores	0.210	17.0	0.182
Warehouse Clubs	0.154	90.0	0.081
Mass Merchandise stores	0.095	10.0	0.086
Drug stores	0.056	11.0	0.051
Total	5.765	4.8	5.500

Source: Sami, Pet Supplies Marketing, Malcolm Knapp Inc.

Estimated Share of 1986 Dog & Cat Food Sales

Retail Outlet Market	Dog/Cat Food $ Sales (billions at retail)	% share of total
Food stores	$5.250	91.1%
Pet Supply Stores	0.210	3.6
Wholesale Clubs	0.154	2.7
Mass Merchandise stores	0.095	1.6
Drug stores	0.056	1.0
Total Pet Foods	5.765	100.0%

Source: FM estimates based on Sami, Pet Supplies Marketing and Malcolm Knapp Inc.

Photo by Ray Garland

There were 52 million pet cats in the nation in 1986, according to the Pet Foods Institute. Owners were out buying everything from food through cedar chip beds.

specializes in the sale of birds and small animals, and that chain, Perry Drug, leases rather than runs its live pet departments.

Buyers for drug chains say they tailor their ads and their planograms to the "convenience minded shopper who appreciates a value." The strategy is to buy the brand name foods on deal and then to advertise them at a super low price to undercut the food stores which have the largest share of pet food sales.

The discount store buyers try to be even more competitive on foods than the drug chains. However because their stores have more space for pet care items, their ads also feature the 25- and 50-lb. bags of dry dog food as well as the best selling brands of 10-lb. kitty litters.

One Wal-Mart manager says that pet foods give his chain an opportunity to "build a low price image" while simultaneously enhancing profits.

"We never promote pet foods at cost," he says. "Instead we try to buy our advertised specials from deal to deal, and although that strategy lets us be super competitive on price, it also lets us make a healthy profit on the category."

According to some sources, Wal-Mart usually makes at least a 10% margin on its featured pet foods, and can make as much as 25% on its private label dog food, Ol'Roy.

Primarily because of the increased emphasis on promoting and expanding pet care sections, drug and discount stores are getting more growth from the pet care category than the food stores, which currently do about 91% of total pet food sales in the country.

According to FM estimates based on research done by Malcolm Knapp Inc., in New York, sales of dog and cat foods in discount stores increased 10% last year to approximately $95 million.

To date, Malcolm Knapp is estimating that pet food sales in discount stores will go up another 8% this year to $103 million.

In drug stores, Knapp estimates that pet food sales increased about 11% in 1986 to $56 million, and should grow another 11% in 1987 to $62 million.

In contrast, SAMI estimates indicate that food stores only increased their pet food volume by about 3% in 1986 to $5.25 billion, and food stores are expected to generate about the same growth in 1987.

The most dramatic growth in pet food sales last year came from the high volume wholesale clubs that are starting to proliferate across the nation.

Malcolm Knapp is estimating that pet food sales in the $8 billion wholesale club industry increased about 90% in 1986 to $154 million.

In 1987, when this fast growth industry is projected to do close to $12 billion a year in sales, Knapp is estimating that pet food sales will increase another 55% to $239 million.

The everyday pet food department in wholesale clubs is already averaging over 80 to 90 ft. Canned foods are usually sold in case lots off pallet displays while 25- and 50-lb. bags of dried food are also merchandised off pallets or ends.

In suburban and rural markets, discount chains like Wal-Mart and K mart are also featuring 25- and 50-lb. bags of the leading brand dog foods as well as large size cat foods and kitty litters.

Buyers say that when they advertise a well-known brand like Carnation or Purina at a competitive price, they can usually sell through their ordered quantities in "less than two weeks."

Health craze hurts liquor sales

Spirit sales are down, wine and beer are up slightly, but cooler sales are exploding, creating new users and copy cat brands

Growth in the alcoholic beverage category has not been strong in the last few years. The interest most Americans now have in health, fitness and well being is turning most consumers away from alcoholic beverages to lighter and healthier drinks.

In the distilled spirits segment of the liquor category, total case shipments into the U.S. were down by 6.6% in 1986, according to IMPACT, the industry's leading research publication.

IMPACT reports that "each and every brown segment fell last year, with bourbon, scotch, and the smaller volume Irish whiskey segment posting double-digit declines of 10.4%, 11.3% and 23% respectively.

IMPACT tracked blended whiskey shipments down by 9.3% while the Canadian whiskeys were down by 4.9%.

White good shipments also fell, but not as drastically. IMPACT reports that white good shipments were down a total of 5.5% in 1986. Rum dropped the most dramatically, down 9.9% while gin was down 7.1% and vodka was down 3.5%.

Tequila dropped 2.6%. Brandy dropped 7.9% while cocktails/mixed drinks dropped 20%. Cordials and liqueurs were flat.

If cooler sales are included in the wine segment, than that category was slightly up in 1986. Beverage Industry, one of the industry's major trade publications, says that total wine sales were up 1.7% in 1987, and that coolers led the surge with a 57% increase in shipments.

However IMPACT treats coolers as a separate category, and without counting them as part of the wine category, IMPACT reports that wine shipments were down a total of 5.5% in 1986. Nineteen eighty-six wine sales were at the lowest volume since 1980, IMPACT says.

In contrast, IMPACT is reporting that case shipments of the coolers, which in IMPACT's definition include spirit and malt coolers as well as wine coolers, were up 71.2% in 1986, a "spectacular" increase in a declining market.

In white goods, imported vodka has been out-performing the liquor

Top 10 Domestic Brands of Beer

Brand	1986 Est total beer market share (Domestic brands)	Share point chng '86 vs '85	Category segment	Est share of domestic segment sales	Share point chg '86 vs '85
1. Budweiser	25.8%	0.7	Premium	57%	3
2. Miller Lite	10.3	—	Light	46	(3)
3. Miller High Life	5.6	1.1	Premium	12	(2)
4. Coors	4.3	0.4	Premium	9	1
5. Busch	4.1	0.6	Popular	21	3
6. Old Milwaukee	4.0	0.1	Popular	20	(1)
7. Coors Light	3.8	0.5	Light	17	1
8. Budweiser Light	3.5	0.5	Light	16	2
9. Michelob	2.9	(0.2)	Super Premium	66	—
10. Milwaukee's Best	2.6	1.3	Popular	13	3
Total Top 10 share	66.9%	1.3	—	—	—

Based on unrounded data. Additions of columns may not agree because of rounding.
Source: IMPACT Databank

Top 10 Imported Beer Brands

Brand	1986 Est share	Share Point chng (86-85)	Country of origin
1. Heineken	29.3%	(2.3)	Netherlands
2. Corona Extra	11.1	6.5	Mexico
3. Molson	10.7	(1.3)	Canada
4. Beck's	9.2	0.1	West Germany
5. Moosehead	4.7	(0.4)	Canada
6. Labatt's	4.5	0.1	Canada
7. St. Pauli Girl	3.5	(0.5)	West Germany
8. Amstel Light	2.7	0.5	Netherlands
9. Tecate	2.1	0.2	Mexico
10. Dos Equis	2.1	(0.1)	Mexico
Total Top 10 share	79.8	2.8	—

Source: IMPACT Databank

Trends in Beer Consumption

Segment	Millions of beer barrels 1986	% chng	Share of total beer sales '86 Share	'85 Share
Premium	80.0	0.0%	43.00%	43.70%
Popular	44.7	0.0	24.00	24.40
Light	41.1	9.6%	22.10	20.50
Imports	8.8	11.6	4.70	4.30
Super Premiums	5.9	(21.3)	3.20	4.10
Malt Liquors	5.6	1.8	3.00	3.00
Other	0.7	0.0	0.03	0.03
Total	186.8	2.2%	100.00	100.00

Source: Beverage Industry & IMPACT Databank

segment as a whole.

According to IMPACT's research, case shipments of imported vodkas increased 32.4% in 1986.

Absolut's sales were up 39.7%; Stolichnaya was up 31.4%; and Finlandia was up 18.8%. Imported vodkas now have a 6% share of the total vodka segment.

For the first time in three years, IMPACT also reports that the beer industry was up in 1986, by a modest 2.2% gain in barrels shipped.

The growth in the beer segment, however, was coming entirely from light beers, up 9.6% in 1986 and imported, up 11.6%. The rest of the category was either flat or down.

Top 5 Brands of Domestic Wine

Brand	1985 market share
1. Gallo	7.3%
2. Carlo Rossi	6.7
3. Almaden	3.6
4. Ingelnook	3.2
5. Taylor California	2.5

Source: Beverage Industry

Top 5 Brands of Imported Wine

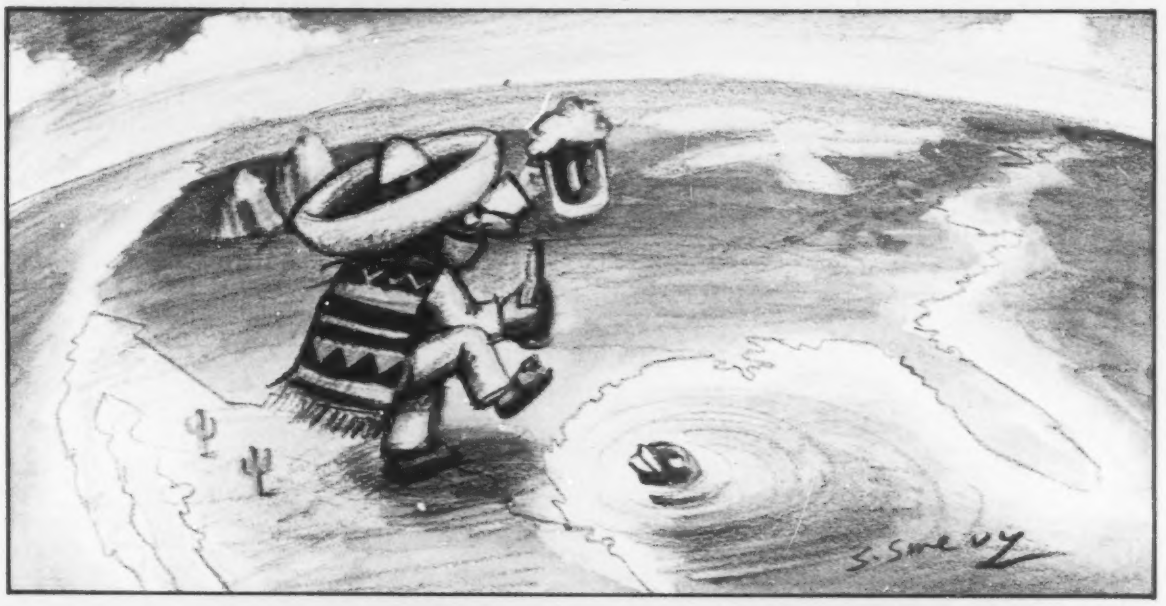
Brand	1985 market share
1. Riuniti	18.0%
2. Cella	4.4
3. Canei	4.2
4. Bolla	3.1
5. Folonari	2.9

Source: Beverage Industry

Trends in Spirit Consumption

Type of Spirits	% change in cases shipped 1986 vs 1985	Share of market 1980	1985	1986
Bourbon	(10.4%)	15.0%	11.5%	11.0%
Blends	(9.3)	9.0	7.0	6.8
Scotch	(11.3)	10.0	9.3	8.8
Canadian	(4.9)	12.0	11.8	12.0
Irish	(23.0)	—	0.2	0.2
Total Brown Whiskies	(8.8)	46.0	39.8	38.9
Gin	(7.1)	10.0	8.7	8.6
Vodka	(3.5)	22.0	22.7	23.4
Rum	(9.9)	7.0	8.3	8.0
Tequila	(2.6)	2.0	2.2	2.3
Total White Spirits	(5.5)	39.0	41.9	42.4
Brandy	(7.9)	4.0	5.2	5.2
Cordials/Liqueurs	—	8.0	11.3	12.1
Cocktails/Mixed Drinks	(20.0)	2.0	1.7	1.5
Total Specialties	(4.1)	15.0	18.3	18.8
Total Distilled Spirits	(6.6)	—	—	—

Regional preferences make Mexican beer "hot"



The drug and discount store buyers who are managing the alcoholic beverage category report tremendous success in 1986 and 1987 with several regional beers.

In the northeast, buyers say their sales of Molson Golden and Moosehead, both Canadian imports have been soaring. In the west and southwest, buyers say that the Corona Mexican beer is the hottest thing to come down the pike since the Jalapeno pepper.

Liquor buyers for drug and discount chains with stores in the west say that Corona beer sales are "escalating."

In some Texas markets, buyers say that regional sales of Corona have increased "more than 300%," and that Corona is starting to outsell Heineken, the country's number one imported beer.

"Corona is a Mexican beer which is why it sells so well in states like Texas and Louisiana," says one buyer. "In the northeast, Molson and Moosehead, which are Canadian beers do especially well.

"People today are traveling more," said one buyer, "and they're also going to more ethnic restaurants, Mexican, Chinese, Japanese, etc. They're being exposed to different types of imported beers in these surroundings, and then they discover they like them, and they seek them out in retail stores.

"There's also more of a status appeal in the imported beers. People who want to make an impression will order a Heineken or a Moosehead rather than a Budweiser or an Old Milwaukee."

Merchandising liquor means promoting coolers, low calorie drinks, sweet drinks

Drug and discount chains are expanding facings and ads for coolers, light and imported beers, and fruit flavored liqueurs

The recent trend among drug and discount chains that carry beer has been to expand facings and feature promotions for the fast growing imports and lighter beers.

Liquor buyers for drug and discount chains say their best sellers in beer this year are the Mexican beers like Corona, Dos Equis, Tecate, and Carta Blanca; the Canadian beers, especially Moosehead and Molson; the West German beers, Becks and St. Pauli Girl; and category leader, Heineken, from the Netherlands.

In domestic beers, the country's best seller was still Budweiser, which had a 25.8% share of the entire domestic beer market in 1986. Budweiser, even though it competes in the premium category of domestic beers which was flat in 1986, gained another 0.7 share points last year.

Miller Lite in 1986 continued to hold onto the No. 2 share spot among domestic beer, according to IMPACT, which also reports that Miller Lite had a one tenth of a point share gain in 1986.

In the wine category, most drug and discount store retailers responded to the growth in cooler sales by eliminating facings on their wine wall for table, dessert and sparkling wines, and turning it over to the top four and five brands in the cooler category.

More chains are also now promoting the coolers instead of liters or the popular California and Italian jug wines.

Most buyers say that coolers have caught on with Americans because they are lower in alcohol which appeals to consumers who want to moderate their drinking. They are blended with fruit drinks to attract the health conscious consumer, and they are portable and easy to serve, as well as sweeter than traditional wines.

The success of the wine coolers has also led to the emergence of several other new segments that buyers report are selling well. These are the fruit flavored wines like the natural peach and raspberry wines from Riunite; the rootbeer and ap-

Nonfood chains are tailoring their beer departments to the best selling segments: light beers, imports, best selling brands and regional favorites.

Top 10 Best Selling Liquor Brands

Brand	% chng thousands of 9 liter cases	1986 market share	Share point change 1986 vs 1985
1. Bacardi Rum	(6.9)	4.6%	(0.2)
2. Smirnoff Vodka	(0.6)	4.1	0.1
3. Seagrams 7 Crown	(9.0)	2.7	(0.2)
4. Canadian Mist	(5.5)	2.3	—
5. Popov Vodka	3.9	2.3	0.2
6. Jim Bean	(6.1)	2.2	(0.1)
7. Dekuyper Liqueurs	38.0	2.2	0.7
8. Jack Daniels Black	(3.8)	2.0	—
9. Seagrams Gin	(3.0)	1.8	—
10. Dewar's	—	1.6	0.1
Top 10 share	(1.4)	25.8	0.6

Based on unrounded data. Addition of columns may not agree because of rounding.
Source: IMPACT Databank

ple schnapps from Dekuyper, and the peach and piña colada schnapps from Leroux.

Most manufacturers also are now either testing or preparing to launch similar types of new products like the Christian Brothers low calorie fruit flavored brandies, the new Jim Beam Fletcher & Oakes spritz flavored prepared cocktail, the wine based fruit flavored Tropic Freezer prepared cocktails from Heublein, the new Jack Daniels fruit flavored mixed cocktails, etc.

"Peach flavored wines like Riunite appeal directly to the same consumer who supports the wine cooler category," says Stan Bevis who buys alcohol and other beverages for the 145 unit K & B chain in New Orleans.

Bevis, whose beverage department is profiled in this issue, says that Riunite Peach sales have been "excellent" in K & B stores this year.

Along with coolers, one of the few bright spots in a tough category.

In different parts of the country, other retailers also say they are building more floor displays and using more endcaps for the sweeter and fruitier drinks.

More chains are also expanding their merchandise mix to include strong selling regional favorites like Mexican beers in the south and western parts of the country and Canadian beers in the Northeast.

Many others are continuing to cross merchandise party goods, snack foods and assorted bar accessories in their liquor departments to encourage incremental sales.

A few, like K & B, Longs', etc., are dressing up their wine departments with artifacts like trellises and vines.

And many chains are also giving more ad and floor space to the best selling brands within the more traditional categories.

"If I'm going to promote vodka," says one buyer for a West Coast chain, "I'll promote the most popular brand like Absolut and Stolichnaya.

"If I'm promoting tequilla, it'll be Jose Cuervo or maybe Sauza."

At K & B, Bevis says he'll use a best selling brand like Jack Daniels to make consumers aware that K & B has the top brands at the best prices.

"When a category is flat, the best thing you can do," says one buyer, "is identify the top sellers, and promote the hell out of them."

The best way to attract the liquor shopper: feature the best selling brands at a super hot price and make the department "highly visible."

Trends in Wine Consumption

Segment	Millions of 9 liter cases 1986	% chng	'86 share of total wine sales	Share point chng 86-85
Table Wines	147.1	(7.4%)	75.1%	(1.7)
Sparkling Wines	18.7	(4.5)	9.5	0.2
Dessert Wines	14.7	3.2	7.5	0.6
+ Special Natural	10.9	1.9	5.6	0.4
Vermouth	2.7	(6.9)	1.4	—
+ + Imported Specialty Wines	1.8	104.7	0.9	0.5
Total	195.9	(5.5)	—	—

+ Wines like Thunderbird, Boone's Farm
+ + Imported sangria and other fruit flavored wines
Unrounded data. Additions of columns may not add up because of rounding
Source: IMPACT

Top 10 Best Selling Cooler Brands
(wine, malt and spirit coolers)

Brand	1986 % chng 9 liter cases	Type of cooler	Est 1986 market	Share point chng '86-'85
1. Bartles & Jaymes	126.7%	wine	23.5%	5.7
2. California Cooler	11.2	wine	16.4	(9.0)
3. Sun Country	100.0	wine	13.8	1.9
4. Seagram's Wine Coolers	132.5	wine	12.8	3.3
5. White Mountain Cooler	112.5	malt	9.4	1.8
6. Calvin Coolers	103.6	wine/malt	7.9	1.2
7. 20/20 Wine Cooler	—	wine	2.2	(1.6)
8. Dewey Stevens	+	wine	2.1	—
9. La Croix Sparkling Cooler	23.5	malt	1.4	(0.5)
10. Champagne Coolers	+	malt	1.3	—
Top 10 Share of market	84.6	—	90.8	6.2
Total Coolers	72.0	—	100.0%	—

+ In first year of distribution
Source: IMPACT Databank

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Cosmetics retail buyers' survey—p.23

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How to resolve conflict among employees—p.16

DRUG STORE NEWS

Vol. 9/No. 20 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc. October 12, 1987

Eckerd considers selling 31 stores

By David Vaczek

CLEARWATER, Fla.—Eckerd Drug is auctioning the 31 stores in its three most northern states of New Jersey, Delaware and Maryland, chain sources told *Drug Store News*.

The chain is offering the stores for sale before deciding if it should instead launch an expansion program in the profitable Delaware-New Jersey district, said Gene Ormand, an Eckerd spokesman.

Pharmacists and store managers were advised through letters and meetings last month that the 1,600-store chain will pursue growth there if it fails to receive the right price by the end of October, Ormand said.

"Prior to the implementation of a future growth strategy for the district, it was decided the company would consider offers from interested parties," Eckerd advised local employees.

"We will either accept an offer or commit to further investment in these key markets," employees were told.

The district—700 miles from Eckerd's nearest warehouse in Charlotte, N.C.—has been the target of purchase offers for years, with the offers picking up during the past two years, particularly since the chain's April, 1986 management leveraged buyout, Ormand said.

Since the buyout, Eckerd has emphasized managing as-

Continued on page 114

Dayton Hudson executive is chosen to head Revco

By James Frederick

TWINSBURG, Ohio—Sid Dworkin, who co-founded and guided Revco D.S. to its position as the nation's largest drug chain, has resigned as Revco chairman and severed all connections with the company. Boake Sells, former president and coo of Dayton Hudson Corp., has replaced Dworkin and former Revco ceo Bill Edwards as both chairman and chief executive.

Edwards, who succeeded Dworkin as Revco's chief executive last April, will remain as president and chief operating officer.

Also leaving the company is Marc Dworkin, executive vp and son of Revco's founder. The Dworkins have agreed to sell their common stock back to the company in exchange for certain Revco assets, in-

Continued on page 114

Boake Sells (pictured) says Revco's board has charged him with transforming Revco 'into an absolutely first-rate retail company in the United States, not just a first-rate drug retailer.'

Dworkin's departure signals an ending and a beginning

TWINSBURG, Ohio—The departure of Sid Dworkin, 66, signals a major turning point for the 31-year-old Revco drug chain as it moves beyond its entrepreneurial roots. As co-founder, president and chairman, Dworkin helped define Revco's discount pricing strategy and basic, convenience-oriented approach to drug store retailing. He was also instrumental in the chain's unprecedented growth in the 1970s and 1980s into the nation's largest drug chain with over 2,000 stores in 29 states.

Dworkin also steered the company into an aggressive diversification program over

Continued on page 114

Thinks it is a good investment:

Grass family eyes Farm Fresh

NORFOLK, Va. — The family of Rite Aid's Alex Grass wants to gain control of the 114-store Farm Fresh supermarket and convenience store chain, based here.

They already own about 7 percent of Farm Fresh's 13 million outstanding shares of stock, and filed a 13-D form with the Securities and Exchange Commission Sept. 24. Grass did not say how much he would pay in a possible tender offer.

"Farm Fresh is very desirable to us," said Grass, chairman and president of Rite Aid Corp., who stressed that the family's interest is as a personal investment, unrelated to Rite Aid.

"We believe it's an undervalued situation. The company has a large share of market in the area in which it operates. We believe its profitability can be improved."

As an example, in Virginia's Tidewater area, Farm Fresh commands an approximate 40 percent share of market, according to Larry Dobrinsky, Farm Fresh vp and treasurer.

Farm Fresh presence
Va.
55*
49
N.C.
10*
Tinee Giant convenience stores
Farm Fresh supermarkets
Source: Drug Store News research and Farm Fresh
*The Farm Fresh board announced Sept. 30 it will operate all Giant Open Air stores under the Farm Fresh name.

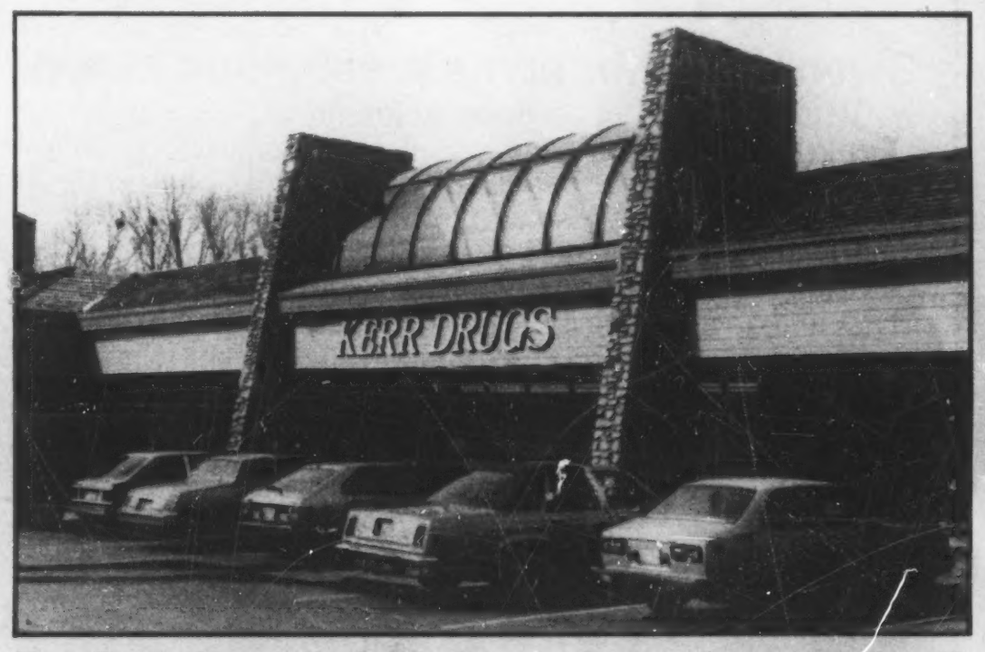
Company in transition

Farm Fresh is a company in transition. A new management team was announced in August, following the retirement of president Eugene Walters in June. "His style is different from ours," Dobrinsky said. The shift to "participatory management rather than a one-man show," he added, "has been good for everybody."

The SEC filing indicates the Grasses may seek control through a negotiated deal with Farm Fresh or a possible acquisition of the company. They urged the company to negotiate.

If Farm Fresh does not choose to negotiate, the filing

Continued on page 114



Kerr Drug plans to maintain its recent pace of opening 14 to 15 stores a year as part of a drive to strengthen its position in current markets and take advantage of new market opportunities.

Kerr in expansion flurry, opening nine units this fall

By Susan Ball

RALEIGH, N.C. — Kerr Drug is opening nine new stores this fall during a 90-day blitz that will raise the North Carolina chain's roster to 83.

Since early September, Kerr has set an unprecedented blistering pace for itself through the fall. The chain opened three stores, including two in Charlotte on Sept. 23 and one in Hope Mills on Sept. 9. Another opening was slated at presstime for Oct. 5 in Southern Pines. Five more stores are scheduled for launch soon: in Charlotte and Chapel Hill on Oct. 12; High Point, Oct. 26; another in the Charlotte market, Nov. 15; and Garner, Nov. 20.

The bunching of openings was not by design, but rather due to a series of construction delays and speed-ups, according to Chris Woody, vp-real estate.

"A whole lot of new shopping centers, especially in Charlotte, are opening up. We're getting a lot of opportunities," added Johnny Kerr,

Continued on page 114

LATE NEWS

- PHOENIX — SupeRx Corp., the 47-store chain headed by Gerry Wolken, has signed an agreement to buy three Walgreens stores in Alabama—two in Huntsville and one in Dothan. The purchase will bring the number of stores in the chain to 50.
- SHIREMANSTOWN, Pa. — Rite Aid drug stores posted 47% higher sales and 19% higher net income in the second quarter ended Aug. 29. Sales rose to $584.1 million compared with $397.9 million in the year-earlier period. Net earnings rose to $15.1 million.
- MEDINA, Ohio — Discount Drug Mart will open its third new store of the year this month in Euclid, a lakefront suburb of Cleveland, bringing its Cleveland-area store total to 24. Another unit will open next February in the Akron area.

NEWS IN BRIEF

Wal-Mart delays Hypermart USA opening

BENTONVILLE, Ark.—Wal-Mart has delayed the opening of its joint venture hypermarket with Cullum Companies until the first quarter of 1988.

The 220,000-square-foot Hypermart USA was originally slated to open by the end of 1987 in Garland, Tex.

The delay is reportedly intended to give Duane Naccarato, president of Hypermart USA, time to work out inventory and management procedures, and to hire an executive who can backup the managing director of operations.

It will be among the largest retail spaces of any kind in the United States, and combine an expanded full-line Wal-Mart store and a large-scale, full-line grocery store under one roof.

Separately, Wal-Mart has broken ground on a Hypermart USA store in Topeka, Kan., which will be run solely by the fast-growing discounter. It will use wholesaler Fleming Foods to set up and stock the grocery area.

Fred Meyer prototypes test Scan-Track

PORTLAND, Ore.—Fred Meyer, the West Coast combo and mass merchandiser chain, has installed eight MS260 Scan-Trak bar code scanners in its new prototype stores in Marysville, Wash., and Klamath Falls, Ore.

The scanners will be used in the pharmacy, record and tape and photo/electronics sections for the chain's portable registers, "moving them from department to department depending on need," according to Peter Stenhjem, senior systems analyst with Fred Meyer. The only sections in the store that are not scanning are soft goods and apparel, he added.

Stenhjem said the chain plans to install Scan-Trak, which is manufactured by Metrologic Instruments, in several more stores patterned on the prototype later this year.

Arbor wins Gold Link Award for ad

TROY, Mich.—Arbor Drugs won first place, newspaper category, in the annual NACDS-*Woman's Day* Gold Link Awards for its advertisement headlined, "We're not better because we're bigger. We may be bigger because we're better."

The ad, created by Kolon, Bittker & Desmond, won for customer service/store image advertisement among large chain store advertisers.

Arbor is the second-largest retail drug store chain in Michigan, with 70 stores located throughout the southeastern part of the state.

Owens & Minor earns prestigious award

RICHMOND, Va.—Owens & Minor, the drug and medical/surgical supply wholesaler, has been awarded *The Wall Street Transcript's* Gold Award for its outstanding performance in the last 12 months.

In announcing the award, the business and finance publication cited the company for its leadership in the industry, and for "a clearly-focused, single-minded strategy centered on the hospital segment of the market [that has] produced notable results in recent quarters."

The *Transcript* gave its silver award to the management team of Alco Health Services, and bronze laurels were taken by McKesson Corp.

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Vol. 9, No. 20 October 12, 1987

Coming to Dart after its narrow escape from a Chapter 11 bankruptcy, Mike Lewis, new senior vp-operations, will oversee the chain's campaign to build store-level morale and discipline and strengthen Dart's merchandise presentations and housekeeping.

Dart's new senior vp-operations: 'a people-oriented motivator'

LANDOVER, Md. — Dart Drug has named Mike J. Lewis, a former executive with the Pic N' Pay shoe store chain, as senior vp-operations.

Stephen Hansbrough, Dart's chairman, said Lewis brings qualities that Dart has sought, as a people-oriented executive with a strong store operations background.

"His basic philosophy on running stores is in line with ours from a presentation standpoint," said Hansbrough, who praised Lewis as "a motivator" and "a stickler for clean stores" and customer service.

Trying to polish image

Rebounding from the second reorganization of its debt since its 1984 management-led leveraged buyout, Dart is trying to recast its image with consumers in the highly competitive Washington, D.C., marketplace, and become "a people-oriented company." For the stores, Dart wants better store housekeeping and a friendlier atmosphere.

Besides his operational strengths, Lewis also brings a background in general merchandise that will contribute to the 86-store chain's goal of bolstering this product segment. The chain sees growth opportunities in such departments as housewares, school and office, and soft goods.

Such merchandise will also allow Dart — traditionally known for its high exposure in front-of-store general merchandise — to clearly position against the fierce rivalry of supermarketers Giant Foods and Safeway, as well as traditional drug chains Peoples and Rite Aid.

Lewis took the post last month, replacing Bob Goldstein, who resigned after seven years in the job.

Formerly of Pic N' Pay

Lewis was vp of general merchandise and manager of Pic N' Pay's Barett division, a 119-store chain selling women's shoes. Pic N' Pay is a 700-store shoe retailing business based in Charlotte, N.C.

He will join the Dart executive committee, which includes Hansbrough; Ron Hirschel, executive vp; Darryl Bryant, senior vp-finance; and Al Nehman, senior vp-merchandising.

Failing to meet debt payments imposed by its $160 million LBO, Dart gained a last-minute reprieve in August when creditors agreed to a refinancing plan that includes a swap to bondholders of Dart common and preferred stock.

Hybrid deep discounter to debut

SAN DIEGO, Calif. — MedClub, another hybrid deep discount format, will open its first store here in early 1988.

Still in a formative stage, MedClub will be "designed for health care providers and health care consumers," Creighton Lawhead, vp-marketing, toid *Drug Store News*.

Modeled primarily after deep discounters and membership warehouse clubs as a possible 50,000- to 80,000-square-foot store, MedClub expects to offer "quality products from recognized national manufacturers at the lowest price possible," Lawhead said.

Merchandised on a store-within-a-store format, MedClub will offer a pharmacy, H&BA, OTC, back-and-front office medical and dental supplies, and a physical fitness and wellness area, which will include clothing, vitamins and sports equipment. As Lawhead explained, MedClub will stock "everything from aspirin to X-ray."

As with deep discounters and membership warehouse clubs, MedClub will use a low gross margin base, and the company will institute some type of membership policy, Lawhead said.

The company, founded by president Richard Lonnecker and chairman Dr. Fred Spong, is still setting its product mix and sku counts, said Lawhead. Because MedClub is still developing its concept, Lawhead said he could not give a space allocation breakdown for each category, nor the anticipated yearly store sales.

MedClub expects to open its first store during the first quarter of 1988, with future expansion plans riding on the success of the initial store. However, Lawhead said it is conceivable the company could roll out several stores a year.

Lawhead said he could not disclose the dollar amount required to open the first store. He said, however, that venture capital is funding the company.

For the first store—as well as future stores—the company is looking for sites located in a typical retail environment, with easy access and ample parking, Lawhead said.

Although the interiors will have the high open ceilings common to warehouse clubs, Lawhead said the flooring and fixtures will be upgraded."

MedClub was initially conceived in late 1986, but several key employee positions were not filled until this August.

The two company founders offer expertise in the medical, real estate, and financial areas, and additional company personnel supply background in medical supply and distribution, purchasing, and membership warehouse operations.

Lawhead said MedClub chose to base its operations and open its first store in San Diego because of the large retirement population and because three of the company's officers are from the area. However, long range company plans call for expansion to more of the West Coast, plus Arizona and Colorado.

Correction

In our chart of the Top 25 drug wholesalers in our Sept. 14th issue, we inadvertently reported that Drug Guild Distributors of Secaucus, N. J. registered flat growth for its fiscal year ending July 31, 1987. Drug Guild actually experienced a 13 percent increase in sales for the period. Sales increased from $150 million in fiscal 1986 to $170 million in fiscal 1987.

Drug Store News also described Drug Guild as a co-op. Actually, the company, which services 640 retail customers, is a stockholding corporation. Some 240 of Drug Guild's retail drug store customers are stockholders in the company.

TRENDS

Cosmetics sales setting brisker pace, buyers say

According to most chain drug store cosmetic buyers, the cosmetics category experienced moderate growth in 1986 and to date is turning in a slightly stronger performance for 1987.

Fully one-third of cosmetic buyers who responded to *Drug Store News*' first annual Cosmetic Buyer Survey reported that total cosmetic department sales were up between 6 percent and 10 percent in 1986.

Twenty-five percent of buyers said sales were up between 11 percent and 15 percent in 1986, while 19 percent reported sales growth of between 16 percent and 20 percent.

Only 6 percent of respondents indicated that total cosmetic sales were up over 20 percent.

However, in interviews with cosmetic buyers nationwide that took place since the survey, *Drug Store News* is being told that a number of chains are experiencing cosmetic category sales increases of 20 percent and better, with some chains, like Revco and Perry Drug, reporting even stronger increases. Refurbishing and upgrading cosmetic departments is generally cited by buyers as being a reason for the increase.

According to the survey, companies that had stores with trained cosmetic sales clerks reported stronger sales increases than did those without trained clerks, with one-third of buyers saying this was the case in 1986.

One in ten buyers, however, said they could not detect any difference in cosmetic sales growth in their stores, that it didn't seem to matter whether store clerks were trained or not. Their cosmetic sales growth rates were still the same. The majority of the buyers, however (56 percent), could not tell either way because they lacked adequate means to measure any such difference.

A third of the buyers with trained sales clerks in their stores said their cosmetic sales increased an average of between 6 percent and 20 percent. Only 6 percent of buyers in stores without trained sales clerks reported increases in this range.

In 1986, buyers reported that their strongest sales increases came from the following categories:

- **Nail Extenders or artificial nails:** 56 percent of the buyers reported sales increases of 16 percent and more;
- **Nail Color:** 38 percent said sales were up 16 percent and more;
- **Nail Treatments:** 31 percent of all buyers reported sales increases of 16 percent and more;
- **Lip Color:** 24 percent said their sales were up 16 percent and more; and
- **Eye Pencils:** 18 percent said their sales were up 16 percent and more.

In 1986, the majority of buyers described the nail care segment as their fastest growing cosmetic department. Forty-five percent of all buyers said their sales in the total nail segment were up 16 percent or more.

In 1987, however, buyers report that nail care sales are growing at a slightly less dramatic rate. Most buyers point out that their nail extender sales are flattening and that color sales are also growing at a slightly slower rate.

Nail treatment sales, however, are still strong, with many buyers still reporting sales increases in excess of 16 percent.

The biggest increases so far this year are happening in the eye segment.

Some buyers also say their facial make-up sales are surging, especially with the new lighter make-ups like the Max Factor and Maybelline mousse, and the translucent powders from Corn Silk and Factor, as well as with the launch of Revlon's new very light and natural New Complexion make-up.

Segment	(5%) to 0%	0%-5%	6%-10%	11%-15%	16%-20%	21% Plus	n.a.
Nail color	0%	12%	12%	12%	32%	6%	26%
Treatments	0	12	19	12	19	12	26
Extenders	0	12	0	6	12	44	26
Implements	0	26	12	26	5	5	26
Total nail	0	5	12	12	26	19	26
Lip moisturizers	5	31	38	0	0	0	26
Lip color	12	0	32	6	12	12	26
Lip pencils	12	12	26	12	6	6	26
Lip gloss	6	32	19	6	13	0	26
Total lip	0	12	32	5	19	6	26
Eye shadow	0	5	50	19	0	0	26
Mascara	0	12	19	32	12	0	25
Eye pencils	6	12	26	12	12	6	26
Total eye	0	6	25	25	19	0	25
Face powders	5	26	12	19	0	12	26
Blush	0	25	32	12	0	6	25
Total face	0	25	32	12	6	0	25
Tints, foundations & moisturizers	6	25	32	6	0	6	25
Ethnic cosmetics	12	38	6	6	0	0	38

About the survey

Chains asked: how maximizing sales?

The cosmetics and fragrance categories are two of the most important growth departments in today's chain drug store.

Management constantly tries to maximize sales in these two departments, through service and through using more creative in-store selling aids.

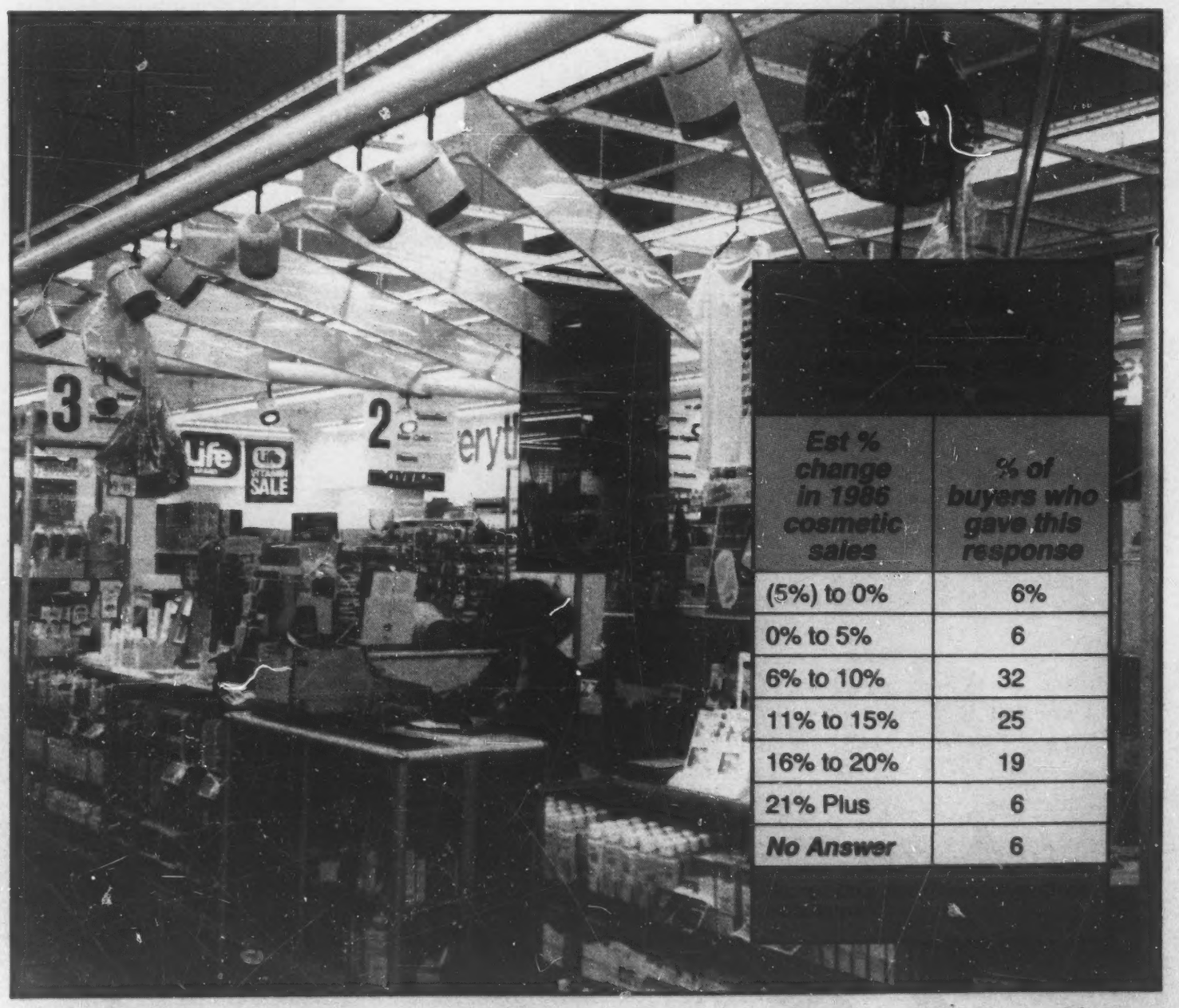
Because *Drug Store News* recognizes the pivotal importance of these two departments, we wanted to know what chain drug stores were doing to maximize sales. To find out, we surveyed cosmetic/fragrance buyers at chain drug stores, asking them to describe their cosmetic merchandising strategies.

Buyers have said their companies encourage suggestive selling, so we were particularly interested in discovering how the average drug chain is training its clerks to do this. Our survey also attempted to determine from buyers how fast sales are increasing in the cosmetics category, and which segments are outperforming (or underperforming) the category as a whole.

We also asked buyers to rate how well a variety of cosmetic companies service their accounts, and we asked buyers to tell us which brands or lines are getting more space in their planograms, and which are getting less.

To cap off the survey, we also asked buyers to rank their three best-selling brands, along with their three worst sellers, in nail care, lip care, eye care and face make-up.

Surveys were sent to 60 top drug chains, and 27 percent of them responded in time for our deadline.



Est % change in 1986 cosmetic sales	% of buyers who gave this response
(5%) to 0%	6%
0% to 5%	6
6% to 10%	32
11% to 15%	25
16% to 20%	19
21% Plus	6
No Answer	6

The new Shoppers Drug Mart store in Main Square, Toronto, sports a new cosmetics look with overhead track lights that add to fashion appeal.

TRENDS

Cosmetics/fragrances

Most chains deficient in training cosmetics clerks

According to a recent *Drug Store News* survey of cosmetic buyers, most major chain drug stores lack adequate training and supervision programs for clerks responsible for cosmetic and fragrance sales.

Chains that do have training programs rely primarily on product bulletins from headquarters to keep their cosmetic sales clerks informed about product information, while 56 percent sometimes take advantage of manufacturer-sponsored product training seminars.

Product brochures are the sales aids most frequently given to cosmetic clerks to assist them with suggestive selling, while a small percentage of chain drug stores also use video machines and in-store product demonstrations to help spark cosmetic and fragrance sales.

Buyers also say they wish their companies could do more to help educate sales clerks, but given the today's economic realities, most doubt whether the situation will improve in the immediate future.

"We encourage our sales clerks to know as much as possible about cosmetic products so they can assist our customers," says Steve Lund, vp of merchandising for Perry Drug Stores.

"However, we are aware that, realistically speaking, the bulk of their time is spent ordering product and stocking shelves," Lund added. "We are now reconfiguring our cosmetic departments so we can facilitate self-service sales. We are facing the fact that our clerks cannot do as much suggestive selling as we would like them to."

In the survey, four out of every ten chain drug cosmetic buyers reported that store clerks, for the most part, have very little product training or familiarity with the fragrances and cosmetics they are expected to sell. These buyers described their typical cosmetic sales clerk as "someone who primarily orders and stocks cosmetics, but has very little product training."

Beauty makeovers by trained cosmeticians are essential to drug stores aiming for an upscale department store image.

Another 25 percent of the respondents described their cosmetic clerks as able to make specific product recommendations, but said that only about half the people in their chains are this well trained.

A third of the sample, however, said they had clerks who could make specific product recommendations in 100 percent of their stores.

The majority of buyers indicated they thought their companies would be able to improve training programs for cosmetic clerks "somewhat" in 1988, but the overall feeling was that improvements would come in small increments.

Just two chains reported that some of their stores had licensed cosmeticians working in the cosmetics department. Both chains, however, reported that the number of stores offering this service was very small. One buyer said his company had licensed cosmeticians in only 2 percent of all stores, and the other said they were in no more than 5 percent.

The majority of buyers also indicated that their companies were not yet using supervisors who could oversee the cosmetic departments in a given region or market.

Forty-four percent said their companies did not have supervisors who could "oversee cosmetic departments in multiple stores."; 12 percent said they had such supervisors for about 10 percent or less of their stores, and another 19 percent said they had them in almost a third of their stores.

Just 25 percent of respondents said they had cosmetic supervisors for all stores.

For chains making an effort to train cosmetic sales clerks, the most popular education tool was product bulletins issued by buyers and merchandisers at corporate headquarters. Eighty-one percent of respondents said they sent such bulletins to all stores.

Nineteen percent also said they sent video tapes to all stores, while half said their companies conducted training schools for cosmetic clerks. Three-quarters of all buyers said their companies used manufacturer-sponsored training sessions or seminars to help educate their clerks.

In addition to wanting to teach clerks how to suggestively sell cosmetics, most buyers said that their companies were also looking for ways to encourage self-service purchases in their stores. To supplement feature ads and in-store displays, some buyers said their companies used computers and video machines. Sixty-nine percent of buyers reported their companies distributed product brochures in their stores, and 63 percent said they allowed in-store demonstrations such as cosmetic make-overs.

Four out of ten said they used computers to encourage self-service selections. (This number is probably much higher now that the Clarion line, which uses a small computer as part of its display, is steadily being added to the planograms in most chain drug stores.)

Thirty-one per cent of respondents said they used video machines in their stores to emphasize the benefits of specific cosmetic and fragrance products.

Only 19 percent of the sample said they depended entirely on manufacturers to provide training and sales aids, while another 19 percent said their companies were the sole source of these aids. The rest of the respondents said their aids came from both manufacturers and from headquarters: a 50/50 share of responsibility was typical.

Most respondents said they generated between 10 percent and 50 percent of their total cosmetic and fragrance sales from off-shelf displays rather than from their in-line planogram.

Exactly half the respondents said that between 10 percent and 30 percent of their sales came from off-shelf displays such as pre-packs, counter stands, and end-caps.

Another 25 percent said that between 31 percent and 50 percent of their sales came from such displays.

One respondent said he was getting more than 51 percent of his total department sales from off-shelf displays. However, 19 percent of the respondents said they were getting virtually no impulse sales in their stores.

These respondents reported that less than 10 percent of their cosmetic/fragrance sales were coming from off-shelf displays.

Chain drug stores with cosmetic buyers trained (by level of training)	
Trained to order & stock, but little product training:	37.5%
50% to 70% of stores have clerks with product training	25.0
All stores have clerks with product training	37.5

Chain drug stores with cosmetic supervisors	
No cosmetic supervisors	44%
10% of all stores have cosmetic supervisors	12
20%-60% of stores have cosmetic supervisors	19
All stores have cosmetic supervisors	25

Training aids most emphasized by chain stores	
Product bulletin from buyers/ merchandisers	81%
In-store video machines	19
Headquarter sponsored training schools	50
Manufacturer sponsored training seminars	75

Space reallocation

Brand	Increasing space	Decreasing space	Unchanged	No answer don't stock	New
Almay	12%	12%	64%	12%	0%
Andrea Mod	0	44	12	44	0
Artmatic	0	6	12	82	0
Aziza	0	38	25	31	0
Bonne Bell	6	19	56	19	0
Chattam	0	12	50	38	0
Coty	19	19	25	25	0
Cutex	0	50	25	25	0
Del Labs	32	6	43	19	0
Jonee	0	6	25	69	0
Jonel	0	0	32	68	0
Kristy Wells	12	25	38	25	0
L'Oreal	32	12	44	12	0
Lee Nails	38	12	32	18	0
Maybelline	19	6	63	12	0
Max Factor	25	32	32	12	0
Noxell	63	0	25	12	0
Pavion	6	0	38	56	0
Revlon	12	26	50	12	0
Salle	12	6	32	44	6

Buyers rate suppliers on service

In the opinion of chain drug store cosmetic buyers, L'Oreal in 1986 was the one company consistently "above average" in offering retailers customer service.

Fifty percent of buyers responding to *Drug Store News'* first annual Cosmetic Buyer Survey singled out L'Oreal as being "above average" in servicing their retail customers, and 75 percent named the company as "average".

No one rated L'Oreal as below average, and 25 percent of the sample gave no answer.

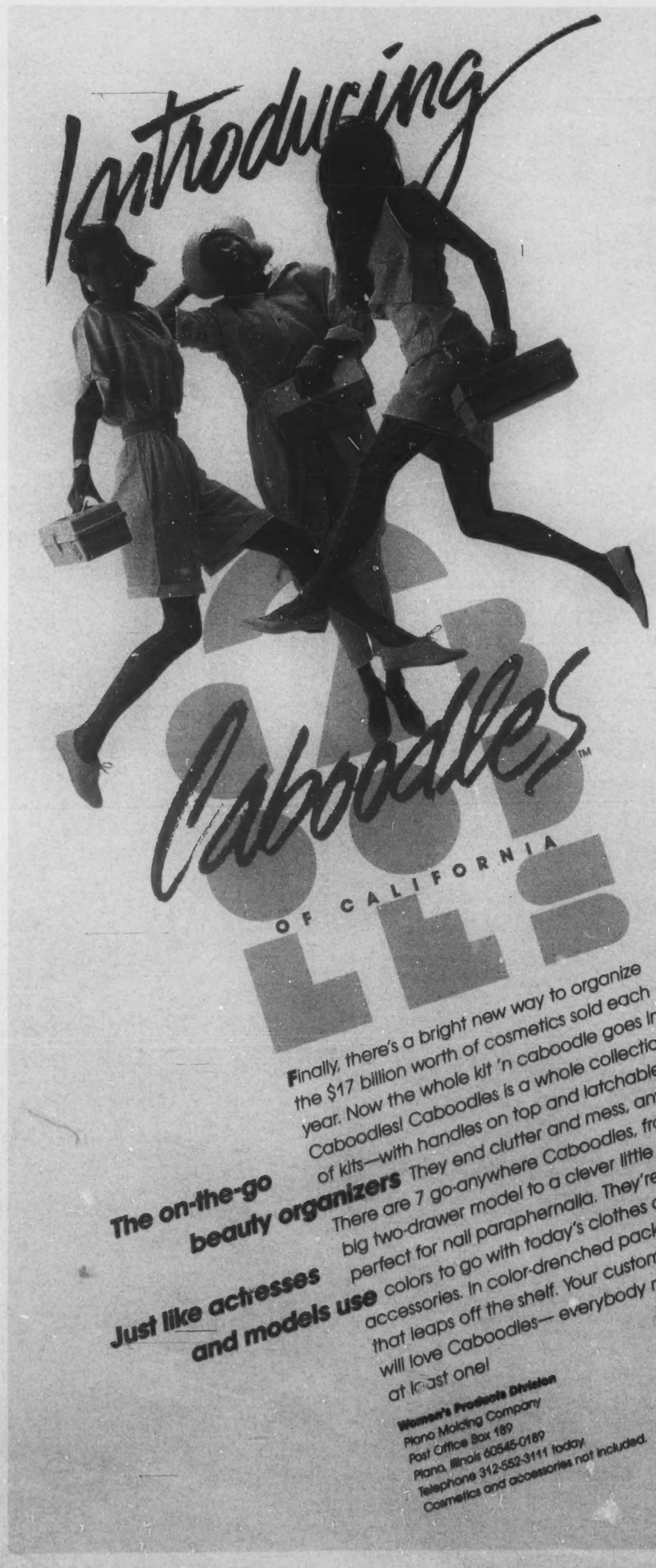
The Noxell Corp., which manufacturers Gover Girl and Clarion, and Lee Pharmaceuticals, which makes Lee Nails, were also frequently mentioned as above average.

Forty-four percent of buyers ranked Noxell as above average; 31 percent gave Lee Pharmaceuticals that honor.

One-fourth of respondents also said that Revlon, Coty and Maybelline were above average on service, while 18 percent named Almay and Max Factor as being above average.

On the other side of the fence, Aziza, Bonne Bell, and Cutex were each named by 32 percent of respondents providing "below average" service. Chatham, Coty, Revlon and Del Labs each received that rating from 25 percent.

Brand	% buyers rating brand among 3 bestsellers	% buyers rating brand No. 1
L'Oreal	83%	17%
Revlon	75	67
Cover Girl	42	0
Sally Hansen	25	8
Cutex	17	0
Wet 'n Wild	17	0
Maybelline	8	0
Lee	8	8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Buyers name best-selling nail brands

The majority of chain drugstore cosmetic buyers, 67 percent, named Revlon as their "number one" best-selling brand of nail coloring products, according to the *Drug Store News* survey.

Revlon was also the second most frequently mentioned brand for buyers who were identifying their top three best-selling nail care brands.

Seventy-five percent of all the buyers listed Revlon in the top three, while 83 percent did the same for the L'Oreal nail coloring line.

Seventeen percent of buyers picked L'Oreal as their number one best-selling nail care brand. The only other brands to get a "number one" mention were Lee Nails, the artificial nail extender line made by Lee Pharmaceuticals, and Del Labs's Sally Hansen nail treatment line.

Four out of every ten buyers also put Cover Girl's nail care line in their list of the top three nail care brands, while 25 percent gave that distinction to Sally Hansen.

Seventeen percent also picked Cutex and Wet & Wild as one of their top three nail care brands.

In naming their poorest performing nail care brands, 45 percent mentioned the Max Factor brand; 36 percent picked Aziza, and 18 percent picked Maybelline, Cutex and Andrea Mod.

In lip care, the majority of buyers again singled out Revlon as their number one best selling lip color line. Seventy-three percent survey picked Revlon as their top selling lip color line; 92 percent put Revlon in their list of top three best sellers.

L'Oreal again came in second. Eighteen percent picked L'Oreal's lip colors as their best selling lip care line, and 83 percent put the L'Oreal line in their top three.

None of the buyers picked Cover Girl as their number one best selling lip care product, but 58 percent did put Cover Girl's lip color line in their top three rankings.

Nine percent picked Max Factor's lip colors as number one, and 17 percent put the Factor lip color line in their top three.

Thirty-six percent of buy-

Continued on page 28

TRENDS

Cosmetics/fragrances

Some cosmetics lines get more space, others cut

In 1986, when chain drugstore cosmetic buyers were modifying their planogram space, the majority of buyers were giving more space to the following brands:

- **Cover Girl and Clarion:** 63 percent of all cosmetic buyers in the *Drug Store News* Cosmetic Survey said they were increasing space for these two Noxell-owned make-up lines;
- **Lee Nails,** made by Lee Pharmaceuticals: 38 percent of buyers reported they were increasing space for this line of artificial nail extenders;
- **L'Oreal cosmetics:** 32 percent of buyers reported increased space allocations for L'Oreal's various color cosmetic lines;
- **Flame Glow cosmetics, Sally Hansen nail treatments, Quencher lipsticks** and **La Cross nail implements,** all owned by Del Labs: 32 percent of buyers said they were increasing space for the Del Labs lines;
- **Maybelline color cosmetics** and **Coty color cosmetics:** 19 percent of buyers were increasing space for Maybelline and for Coty.

In 1986, buyers had mixed feelings about Max Factor's line. Some 25 percent of our respondents said they were increasing space for Factor last year, but 32 percent also reported they were decreasing space.

Part of the cutback, however, was coming out of Factor's Maxi cosmetic line for younger consumers. Buyers in 1987 say the traditional Max Factor products, including the face make-ups and the newly repackaged lip sticks, eye shadows and blushes, are doing well in their stores.

The reviews on Maxi, however, are still mixed.

Buyers report having a somewhat similiar experience with Revlon's Natural Wonder line. Some chains report much stronger sales of Natural Wonder since Revlon repackaged and relaunched the line last year. Several chains, however, report that in some portions of the country sales are still sluggish on Natural Wonder.

In 1986, Natural Wonder's sales were not increasing fast enough for many buyers, and that's one reason why 26 percent of respondents said they were decreasing space allocations for Revlon last year.

Twelve percent said they were increasing space for Revlon products.

In 1987, buyers say they are much more optimistic about Revlon, and many chains are now expanding space for the classic Revlon mass prestige cosmetics as well as either maintaining or giving slightly more space to Natural Wonder.

Continued on page 29

Nail brands

Continued from page 26

ers said Almay's line of lipsticks was their poorest-selling lip care brand.

In eye color, Revlon and L'Oreal both lost out to Cover Girl as the number one favorite brand of most buyers, as 46 percent of the buyers in our survey picked Cover Girl as their number one best-selling eye color brand, and 75 percent listed the label in their top three best sellers.

Twenty-seven percent of buyers also picked Maybelline and Revlon as their number one best-selling eye color brand.

Aziza got mentioned most frequently as one of the three poorest selling eye color brands, with 45 percent of buyers in our survey listing it as one of their three worst sellers in the eye color category.

Eighteen percent of the buyers also singled out Max Factor and Cutex as among their three poorest-selling eye color brands.

In facial make-ups, Cover Girl was the runaway number one favorite with chain drugstore cosmetic buyers. Sixty percent of our respondents picked Gover Girl as their number one best-selling facial make-up brand. Twenty percent picked Maybelline, and 10 percent picked Revlon and Max Factor respectively.

Seventy-five percent of all buyers also named Cover Girl as one of their three best-selling facial make-up brands, while 67 percent gave Revlon that distinction.

Maybelline was named one of the top three best sellers by 41 percent of survey respondents, and another 25 percent picked L'Oreal as one of their three top best sellers.

One-third of buyers named Max Factor as one of their three worst-selling facial make-up brands; another 27 percent so labeled L'Oreal, Bonne Bell, and Artmatic.

The Counter

Buyers say sales of color cosmetics are up sharply

According to drug store retailers, sales of color cosmetic products are up sharply for the first nine months of 1987.

Buyers say their strongest increases are still coming from the nail care segment, but many buyers are also reporting strong sales surges in colored mascaras, upscale skin treatments, liquid make-ups, and nail and lip colors.

Many buyers are still giving the recent launch of the Clarion color line from Noxell very good reviews. However, a few chains are reporting that Clarion sales began to slow down around mid-summer.

Nail extender sales are flattening slightly, but nail treatment and nail implement sales are still very strong.

Sales for the latest hot fashion shades of mascara are doing very well, but some buyers are predicting that the more intense colored mascaras will soon fall out of fashion. The strongest sellers after the holidays are over, they predict, will be the more conservative colored mascaras, the purples, teals, dark blues, etc.

With one exception, buyers say their sales of recently repackaged lines like L'Oreal, Max Factor, etc., have also been strong.

Several chains are reporting, however, that Revlon's repackaged Natural Wonder line started off strong, but has slowed down in sales. The classic Revlon sales, on the other hand, are thriving.

Begley Drug Stores

At Begley Drug in Kentucky, cosmetic buyer Billie Carpenter is seeing her strongest growth in color cosmetics and in face make-ups.

"The colored wands from Maybelline, all the colored eye shadows, the lip and nail color and the nail treatment products are all selling well," she says. "Everything in face is also selling well—foundations, pressed powders, blushes, and all the multi-colored and speckle-colored eye shadows."

The new Max Factor Mousse make-up is one of Begley's best sellers this year, and Carpenter is very excited about the potential for Revlon's newly launched New Complexion make-up.

"That's just coming in now," she says, "and it should be really hot. It's formulation is so similiar to Estée Lauder that it should attract some new customers for us. The price point on New Complexion is $7.50, compared to an average $18.50 for the prestige department store brands.

"It's also perfect for the woman who wouldn't use a heavy make-up, but who would try something that delivers a light, natural coverage."

Best Performers

Colored mascaras have also sold well this year for Begley. Carpenter says the Maybelline Shine Free colored mascaras were exceptionally good, and L'Oreal's new colored mascaras, Lash Out, also did well.

Many stores, she said, sold through 18 piece pre-packs on both brands in about two weeks. "One 'C' store," she said, "had just four pieces left out of the 18-piece Lash Out pre-pack, and this was while we were in the middle of a reset."

The best selling colored

Continued on page 30

Some lines

Continued from page 28

The majority of buyers in the survey made the strongest cutbacks last year on the following lines:

- **Andrea Mod:** 44 percent of buyers reported they were decreasing space for this line of trendy color cosmetics. To date, buyers in 1987 are still giving Andrea Mod some mixed reviews. Those who give the line good space for promotional pre-pack displays report stronger sales than those who squeeze the line in alongside the better advertised brands in the cosmetic planogram.
- **Aziza:** 38 percent of buyers reported they were decreasing space for Aziza, partly because of slowdowns in the sale of Aziza's trendy nail polishing pens.
- Fifty percent said they were cutting back space for **Cutex.** Some buyers said they thought it was getting much harder for companies like Cutex, Andrea, Hazel Bishop, Aziza, etc. to compete with brands like Revlon, Cover Girl, Maybelline, and L'Oreal because the manufacturers of these brands can't afford to maintain the same high levels of consumer advertising expenditures.

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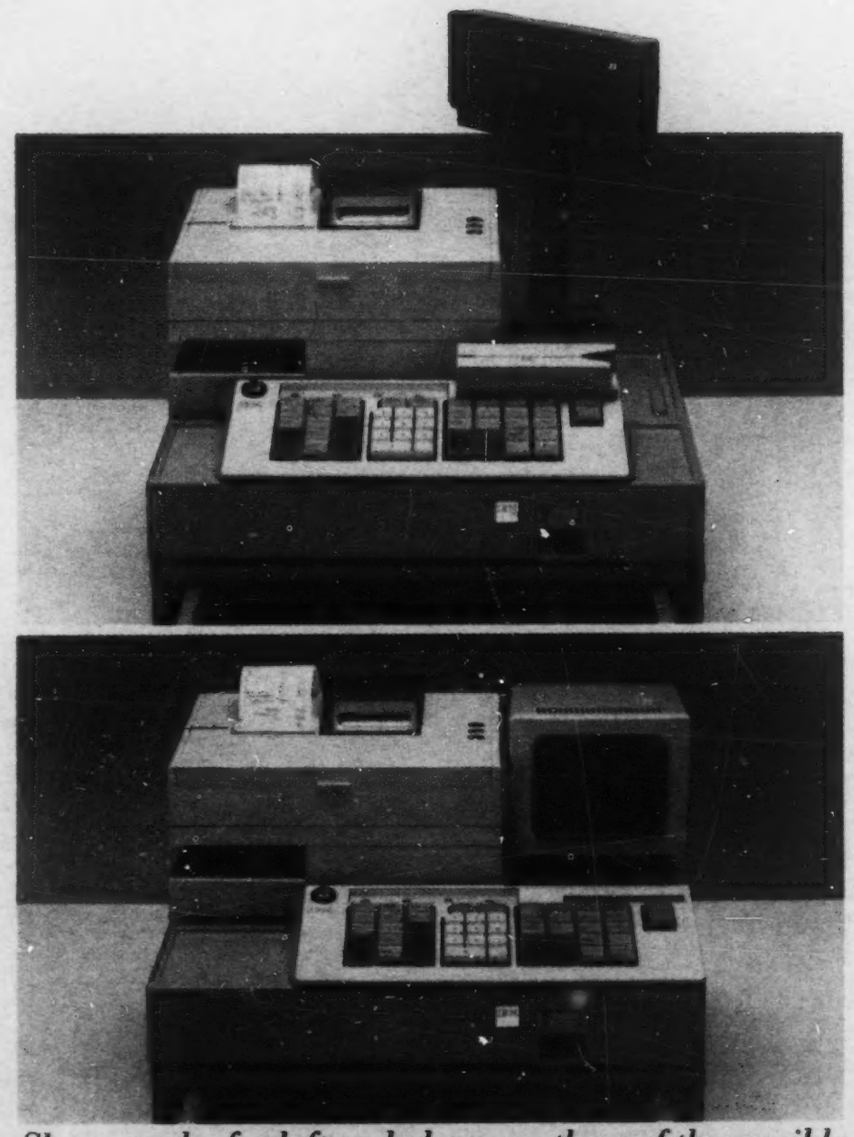

Shown to the far left and above are three of the possible configurations of the IBM 4683 Point of Sale Terminals.

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TRENDS Cosmetics/fragrances

Buyers review sales of new products, old favorites

Continued from page 29

mascaras, she says, were in the basic shades: teal, navy, or green. The wilder colors did not sell that well.

Another promotion that did well at Begley was L'Oreal's Glossique lip block. The promotion reintroduced Glossique in a tube rather than a pot of gloss, and Carpenter says the 24-piece pre-pack sold very well. Glossique is now slated to go into Begley's planogram.

Del Labs' Flame Glow is not in the Begley cosmetic planogram, but Carpenter did buy their Flame Glow Swirl shadows in their new clear containers, and she says they also sold "very well."

In face make-ups, Begley's best sellers are Cover Girl, Revlon and L'Oreal's Visuelle. "All my make-ups and foundations are doing well this year," Carpenter says. "Maybe it has something to do with the average woman's fear about sun damage to the skin."

In nail treatments, Sally Hansen and Salle l0 both did well.

The Sally Hansen line is in the Begley planogram, but the Salle l0 brands are just featured in promotional prepacks. "They're both doing well." Carpenter says, "but I can't say which is better because comparing a planogramed line to a promotional pre-pack is like comparing apples and oranges."

Carpenter says her two best-selling treatment brands are the Sally Hansen Maximum Growth and the Salle 10 No Chip.

Noxell's new cosmetic line, Clarion, is also doing well at Begley. "I lead my cosmetic department with the Clarion line," says Carpenter. "It's the first section in my department. I think Clarion needs to be on the wall [for the department] to achieve its full potential. I know some chains are only stocking Clarion in the floor display, and they are not getting as strong a sales growth as I am."

Noxell is in the process of extending the Clarion line to nail colors and one kit eye shadows. Carpenter says she feels sales will be strong in those segments, too.

Perry Drug Stores

At Perry Drug in Detroit, vp of merchandising Steve Lund reports that total cosmetic sales are up about 20 percent for the year.

However, much of the growth, says Lund, is due to Perry's expanded advertising for the department.

Perry has also begun reconfiguring its cosmetic and fragrance planograms, and that has caused sales to increase by as much as 30 percent in stores with the new set.

"We haven't made any decor changes," says Lund, "but we have eliminated the generic nail bar, and we've given the entire department a total family presentation."

In its reset, Lund says Perry has "dramatically" increased space for Almay, given more room to Revlon, Maybelline and Cover Girl, and added Clarion to the wall in a two-and-a-half-foot section.

"The family presentation is just a better way to go," says Lund. "We seem to be getting more related sales like a Revlon eye shadow with a Revlon lip stick or a Revlon nail color with a lipstick.

"In many of our remerchandised stores, we increased our total sales by 30 percent. Nail care alone grew that much."

Perry also began stepping up its ads for cosmetics last fall.

% off-shelf sales	% buyers giving response
0-10%	19%
10-30%	50%
31-50%	25%
51% Plus	6%

The chain now does a monthly end cap promotion featuring multiple products, generally from the same manufacturer, once a month.

"We're planograming one end a month," says Lund. "We did this last fall with Revlon and tied it in to a Detroit Pistons game, and it was a fantastic promotion. For that event, we planogramed two endcaps: one end was for professional hair care, and the other was for colored cosmetics. It was quite successful.

"We're centering our ads around the items in the planogram. and we're also staging regular display contests for our store merchandisers," Lund says.

In terms of new product launches, Lund says he can't describe the cosmetic category as "particularly dynamic" this year. "There was a lot of repackaging and relaunching of lines," he says, "but there was nothing that was dramatically new."

Last year's Clarion launch was dramatic, the first launch of a major cosmetic line in many years, and Lund reports that current sales for Clarion are still quite strong in Perry drugstores.

"Clarion's doing very well for us," says Lund. "It's earning its keep in the department."

The mousse make-ups, however, from Factor and Maybelline, which many buyers say are doing very well in their stores this year, were just "doing okay" in the Perry stores.

H.E. Butt Food & Drug

Mary Nell Glitzer, the cosmetic and health and beauty aids Buyer for H.E. Butt, calls Clarion "the overall best new product introduction of the last few years in cosmetics."

Clarion, she says, is "doing real well" in Butt stores.

Glitzer says she plans to break ads for the new Clarion nail and eye shadow line very shortly, and she says she expects the color lines to sell as well as the face make-ups. "It's a good line." she says, "with good advertising and good packaging."

Glitzer also says her success with Clarion illustrates Butt's overall success with cosmetics in 1987. "Most of our lines are doing well right now," she says, "and Clarion is also playing off that.

"Almay has been showing strong growth, and Revlon's shown good growth. Max Factor's up from last year. And the new mousse make-ups from both Factor and Maybelline have been selling very well," she adds.

Glitzer says Revlon's New Complexion make-up line "looks very good. They have pretty good advertising behind it too, and I think it'll do very well."

Glitzer is estimating that overall make-up sales will be up between 8 percent and 10 percent by the end of 1987. "However, we're going against a soft year," she says. "Don't forget that just two years ago, sales were phenomenal in this category."

Nail color sales are "down some" in H.E. Butt stores, Glitzer says. She think the decline may be partly because of all the recent growth in artificial nail sales.

Eye make-up sales have been "really good" at Butt, Glitzer says, "especially the shadow wands, the colored mascaras, and the colored eye liners.

"There are so many new and different items in that category," she says, "that sales have been very strong."

L'Oreal's eye shadows have been doing exceptionally well, Aziza's shadows have been good. Max Factor's Satin Shadows and Revlon's Custom Eyes have also been strong.

"L'Oreal's Lash Out and Maybelline's colored mascaras have done "exceptionally well." she says.

Oddly enough, Glitzer says her sales of nail treatment lines have not been that strong yet. "We haven't seen any strong increases in that category at all yet, but then our market is usually about six months behind the hottest trends in the east and the west.

"I think we'll see some very strong growth in that category in the near future," Glitzer points out, "especially because people have been using so many artificial nail products, they're going to need more nail treatments."

K mart

In K mart stores this year, the strongest growth categories have been the following: kohl pencils, which cosmetic buyer Leo Camara says have been generating "excellent growth"; colored mascara and lip liners, also "excellent"; loose face powders and translucent face powders, which are "becoming very popular"; and skin treatment products are "doing very well".

Camara says the new Clarion line has been "very good" in K mart stores, and so has Maybelline's new mousse make-ups.

"The loose face powders and the translucent powders have been selling well," he says. "Maybelline has a Shine Free powder that is innovatively packaged in an hourglass-style dispenser. It's not messy like a loose powder, and it's selling quite well."

Camara says that to date, K mart's sales of face treatment products are up about 20 percent.

"Women today are more knowledgable about treatment than ever before," he says. "Today, the trend seems to be toward buying a regimen of products rather than individual items.

" I think the regimen idea just needed more exposure to the public. It's like SPF in sun tans. It took three years before the public knew what SPFs were all about, but today the higher SPFs are the best-selling segment of the category. I think skin treatment regimens will go in the same direction."

So far in 1987, Camara says his Oil of Olay sales are still strong, and so are sales of Max Factor's Jacqueline Smith treatment line which K mart carried as an in-and-out promotion.

In-store computers	37.5%
In-store video machines	31.0
Product brochures/ booklets	69.0
In-store product demonstrations	63.0

Right now, Camara says K mart is considering adding a brand-name full skin treatment line to their everyday cosmetic planogram.

Austin Drug Stores

In the New York market, Marlene Isaacson, the cosmetics buyer for Austin Drug, reports very strong sales in cosmetics.

At Austin, Isaacson says the nail care category is still the strongest growth segment in cosmetics, but Austin also does a very strong and still growing business in prestige cosmetics, prestige skin treatment and prestige fragrances.

Austin, in fact, stocks many department store lines as well as the mass prestige cosmetics like Revlon and L'Oreal.

"Lines like Lancombe and Arden are very big for us," says Isaacson. "Their sales this year have been increasing at a good strong rate, and so have our nail care sales: the treatments, the line extenders, and the colors."

Austin has reacted to the strong growth in nail care by creating a seperate merchandising section for the nail care category.

Depending on the size of the store, nail care has its own department ranging from 4 feet in small stores to 12 feet in the larger stores.

The department includes all nail treatment items, all implements, all polish removers, and accessories like emory boards and cotton balls. The only category segment that is not in the nail care section are nail polishes, and that is because Austin prefers to put the colored enamels in with their brand "families."

In facial make-ups, Austin does particularly well with Revlon's Ultima make-ups and with Arden. The Revlon classic line also does well in Austin stores, says Isaacson, and so does Almay.

"The Max Factor line has also picked up a lot since they repackaged it," she says. "We're doing very well with the whole line, everything from the face make-ups through the lipsticks and the nail enamels."

Revlon's Natural Wonder is in the Austin stores, but Isaacson says her stores haven't been doing that well with the line.

"When Revlon first relaunched it, we did very well," she says, "but they were also the first to repackage, and since then, everyone else has repackaged too.

" Maybe they're not advertising it enough, but we find it s just not a popular line," she points out. "We don't even have customers asking for it."

Isaacson says L'Oreal's make-ups have also picked up in sales since they were repackaged, but she adds that "L'Oreal has always done well for us." Also strong are the L'Oreal eye make-ups and their nail polishes.

In colored mascaras, Lancombe is a big seller in the Austin stores. At a lower price point, Del Labs' new colored mascaras under the Flame Glow brand have also done well.

Revlon's new New Complexion make-up is now in the Austin stores, and Isaacson reports initial sales are very good. "I think it's going to be a very good line for us," she says. "We do have a loyal Revlon customer and both the packaging and the quality on this line is very good."

Isaacson says the new Clarion color line from Noxell, however, is not doing as well as it did when Noxell first launched the line.

TRENDS *Skin care*

Sun care growth shines brightly for drug chains

The sun care industry is expected to generate some $400 million in retail dollars by the end of this year, according to the Charles Kline Co. of Fairfield, N. J.

Kline estimates the category will be up about 9 percent in total dollar sales this year. Kline includes sales of after-sun care burn treatment and moisturizing products in their definition of the sun care category. They also track sun care sales through department store outlets.

A.C. Nielsen, which does not include either after-sun treatments or department store sales in their estimates of sun care sales, is predicting a slower growth rate for the category. Nielsen is estimating that the sun care market will be up just 6 percent in 1987, to $250 million. Nielsen just tracks sun care sales in mass retail outlets: drugstores, food stores and mass merchandise stores.

Both Nielsen and Kline, however, still report that the fastest growing segment in sun care are the higher-SPF products.

Retailers from all parts of the country report that their high SPF product sales are soaring, at rates often in excess of 20 percent a year.

Retailers also say that some of their best sellers this year have been the 24-plus SPF products introduced earlier this season, particularly Westwood Pharmaceutical's PreSun 29 for Sensitive Skin, Johnson & Johnson's Sundown Block Cream with an SPF 24 rating, and Coppertone's Water Babies.

However, even though consumers are buying more sun protectors, there still continues to be a strong market for sun tanning products as well. Retailers around the country say their sales of the two leading tanning products, Coppertone and Hawaiian Tropic, are strong, and sales of the repackaged Bain de Soleil are excellent.

At Begley Drug in Kentucky, an especially hot summer helped the sun care category to grow exceptionally well this year.

Sun care buyer Billie Carpenter says that the Bain de Soleil line has done very well this year. "Despite all the anxiety about sun damage," Carpenter says, "sales are trending up strongly."

Carpenter, like many other sun care buyers, reports that her sales of higher SPF products are up dramaticaly.

"PreSun 29," she said, "sold out to the piece. We were out of stock for about a week while we were rushing through a reorder."

Carpenter says that sales of Hawaiian Tropic's 25 SPF were also very good.

But despite the strong growth in the higher-SPF products, Carpenter said she did not see any decrease in the sales of her low SPFs, in the no-SPF tanning oils, or the tanning accellerators.

> 'We had an increase in high-SPF items without taking anything away from the lower SPFs.'
>
> **Billie Carpenter**
> *Sun care buyer*
> *Begley Drug*

"We had an increase in high-SPF items without taking anything away from the lower SPFs," she said. "I think we're getting new consumers into the category. The people who like to tan are still buying their prefered brands and the lower SPFs, but now there are new shoppers: the people who are worried about skin cancer and sun damage."

Carpenter did not have Eclipse's new Cancer Guard in her stores this summer, but she reports the product seems to sell well in other stores in her market, and says she will probably put it in her planogram next year.

She also thinks that food and discount stores have discovered the growth potential of sun care. "I'm seeing a lot more displays in their stores for these items," she says. "I think the drugstore industry is going to have to be a lot more competitive in this category in the future."

Out in Texas, H.E. Butt reports that sun care sales in its combination food and drugstores were very strong this year. Buyer Mary Nell Glitzer reports that the entire category's performance was good, but that higher-SPF product sales were exceptionally strong.

"The higher SPFs did great," says Glitzer, "but they didn't take anything away from my regular tanning product sales. Some of my lines were up 20 percent and more this year.

"I think the higher SPFs are bringing new users into the category. So many older people today are looking for sun protection," Glitzer explained, "and my feeling is that we're going to continue to see this category grow strongly for several more years."

Butt's best sellers this year were Johnson & Johnson's 24 SPF Sundown and Westwood's PreSun 29. Tanning accelerators also did well in her stores, but were not as hot as last year when they were brand new. "People bought them early in the season this year." she said, "and they didn't rebuy as often. We had no problem staying in stock."

The new colored zinc oxides also had mixed results in H.E. Butt stores. In some areas, Glitzer says, "they sold very well. Along the Texas coast, with all the kids going to the beach, they were hot sellers," she said, "but in our Hispanic markets, we just didn't see much movement."

Continued on page 68

Drug stores generate sun care sales share gains

According to A.C. Nielsen, drug store retailers have done a better job this year in competing with food and mass merchandise stores for a stronger share of sun care sales.

Nielsen reports that drug stores had a 52.5 percent share of the sun lotion and sun oil market for the first six months of 1987, compared to a 50.1 percent share for the first six months fo 1987.

Nielsen is also estimating that by year-end, total mass retail sales for this category will be up approximately 6 percent, to $250 million.

Sun care buyers for chain drugstores say they believe their industry has been able to improve its share of sales in this category because drugstores have been advertising sun care more aggressively, and also supporting the category with more in-store displays and with more competitive pricing.

A few retailers also think that the proliferation of higher SPF numbers in sun care has helped their share of sales. Several buyers say it's possible that consumers are using drugstores to shop for sun care lines because they are confused about what the SPF numbers mean, and so, say some buyers, "they come into a drugstore to ask a pharmacist for advice."

"There is a lot of concern today about sun damage," says a store manager for Walgreen's in Chicago. "But many people are confused about SPFs. They don't understand what they are or exactly what they do. All they know for sure is that experts say they should be using them when they go out into the sun.

"Now people can buy higher SPFs in food and discount stores too, but it's just easier, if they have any questions, to buy them in a drugstore," the Walgreen's manager added. "That way they can ask the pharmacist or the clerk which SPF factor is best for them and their skin type."

Share of sun care sales by outlet

	1986 Drug	1987 Drug	Food	Mass Merchandisers
Suntan lotions and oils	52.5%	50.1%	25.3%	24.6%

Source: A.C. Nielsen Marketing Research

Mid-1987 sun care launches

Brand	Manufacturer	Quarterly launch date	Product description
Aubrey Organics	Aubrey Organics Tampa, Fla.	2nd '87	Two line extensions: 1. Tan Up Accelerator 2. After Sun Burn Treatment
Formula 1	Tan Line-Formula 1 Oakbrook, Ill.	2nd '87	New line; includes: 1. Dark Tanning Oil 2. Dark Tanning Lotion 3. Dark Tanning Gel 4. After Tan Tan Saver 5. Water Resistant Oil
Aura Cacia	Aura Cacia Rohnert Park, Calif.	2nd '87	Line extension: Sun Butter SPF 4
Eclipse	Eclipse Labs Greenwich, Conn.	2nd '87	Line extension: Total Sunblock Spray 20
Mastey's	Mastey de Paris Paris, France	2nd '87	Line extension: Prot-Ege Hair Sun Screen
Hot Zinx	Del Labs Farmingdale, N.Y.	2nd '87 2nd '87	New line includes: 6 shades of colored zinc oxides
Sun Science	Elizabeth Arden New York, NY	2nd '87	Line extension: Superblock Cream 34
T'rific for Teens	Jason Natural Products Culver City, Calif.	2nd '87	Part of new line: Smart Set Protector SPF 8
Cabot's	West Cabot Cosmetics Central Islip, N.Y.	2nd '87	Line extension: Vitamin E Therapeutic Lip Protector
Alo Sun	Aloe Creme Labs Pompano Beach, Fla.	2nd '87	Line extension: Fashion Tan Waterproof Sunblock Lotion SPF 15
Bonne Bell	Bonne Bell Lakewood, Ohio	2nd '87	New line includes: 1. Waterproofer Sun Bloc SPF 15 2. Waterproofer Moisture Lotion SPF 4 and SPF 6 3. Waterproofer Lip-Proofer SPF 15 4. Waterproof Lip and Face Protection on a String SPF 15
Banana Boat	Sun Labs Delray Beach, Fla.	2nd '87	Line extension: 1. Faces & Sensitive Skin SPF 23 sunblock 2. Dark Tanning Lotion SPF 4

A lesson in sun protection products

What does SPF mean?

SPF stands for Sun Protection Factor. Every sun protection product is given an SPF number, and that number tells the user how long that particular product can protect their skin by shielding out the sun's burning rays.

How should someone use an SPF number?

The SPF number is a general guideline for indicating to individuals how long they can remain in the sun without showing signs of redness. If the user knows that they can ordinarily stay in the sun for, say, 15 minutes before their skin starts to redden, then if they buy an SPF 6 sun protector, they'll be able to stay in the sun six times longer than that, or 90 minutes, before their skin starts to redden.

What is the best SPF to buy?

If an individual is fair-skinned or if they are just starting to tan, the safest course for them is to use a product with the highest available SPF. Also recommend a high SPF if the individual is going to stay in the sun for a long period of time.

What skin type(s) should use skin protection factors?

Every skin type, from the darkest to the lightest, should use an SPF. Low SPFs from 2-6 are good for easy tanners or for someone who has been slowly building a tan and wants to deepen it.

The high SPFs, 20 and above, are good for the fairest skin and for vulnerable areas like noses, ears, behind the knees, tops of the feet, etc.

Should the face be given a higher SPF than the rest of the body?

Even if an individual tans easily, the face should always be given more protection than the rest of the body. Some experts recommend starting to tan the face with SPFs of 20 or more, and than shifting to SPFs of between 8 and 15 as the tan develops.

What is the difference between water-resistant and waterproof sun protection products?

Waterproof sun protectors protect the skin for longer stretches at a time. A high SPF water-resistant product can usually protect the skin up to 40 minutes in the water. A waterproof product can protect up to twice as long.

Both water-resistant and waterproof products are best for users who like to swim. Most conventional sunscreen products are removed from the skin by water. Also a large portion of ultraviolet rays are absorbed by water, and this can lead to an underwater burn. Waterproof and water resistant products, however, will continue to protect.

How much sun protection should one apply at any given time?

According to dermatologists, most people do not put enough sunscreens on their skin at any given time. The application should be generous or the sun protection won't last as long as the SPF number indicates.

What are the drawbacks to using SPFs products?

Many SPF products use Para-aminobenzoic acid (PABA) as a primary ingredient. PABA, however, can irritate some types of skin and it can also stain clothing.

PABA sunscreens also only block ultraviolet B (UVB) rays, and dermatologists say ultraviolet A (UVA) rays can be just as dangerous, even though they are not as strong a contributor to sun burns as UVB rays.

Many of the new sun protection products now coming onto the market are PABA-free, and they are advertised as being hypo-allergenic and good for protection against UVA and UVB rays. Some even claim to protect the skin from infrared rays.

'That's the only product I have that absolutely prevents tanning!'

Sun care growth shines

Continued from page 66

Glitzer also reports good sales of two make-up brands with SPF coverage mentioned on their packaging. "Almay and Max Factor both have SPF protection in some of their make-ups this year," Glitzer says, "and sales have been good for both brands."

Perry Drug Stores

Perry Drug stores also reported a good year in sun care sales. Vice president of merchandising Steve Lund says sales were particularly helped because 1987 "was a very good sun tanning year in most of our markets."

Lund says the higher SPF products and the tanning accelerators "did very well. Our best sellers were definitely the super blocks," he said, 'but I can't say which were the absolute best sellers yet because I won't see my sun care figures until the end of the year."

At Begley Drug, sun care buyer Billie Carpenter said PreSun 29 was her best performer this past summer with Bain de Soleil's new tan accelerators a close second best.

"I think PreSun 29 was so successful," she said, "because it was a line extension and people were already familiar with the brand."

"The tan accelerators did well because Bain de Soleil had an excellent trial-size promotion on them. At the beginning of the season, they shipped on-packs of their regular line with trial sizes of the tan accelerator attached. They sold through very quickly and people came back and repurchased the regular sizes of the accelerator."

"We sold everything in sun care very well this year," says Mike Conner, sun care buyer for Hartford, Conn.-based Arthur Drug.

"Spraying oils were particularly strong for us, and the Coppertone line did very well this year. Coppertone's Aloe Gel was terrific, and the Coppertone Aloe Spray Mist was good too."

Conner says his number one best seller was PreSun 29. "It was a great launch because they detailed doctors on the launch, and the doctors recommended it. We sold through and didn't have any returns at all. Not even any returns for the SPF 8.

"And we did well, even though it was a high-price brand. People wanted it. It was also very profitable for us."

Colored zincs did not do well in Arthur stores, but Coppertone's Water Babies did, and Conner said the tan accelerators sold so well that manufacturers should think of bringing out some larger sizes.

"People use them so often," he said, "that they really need larger sizes to last a few days longer."

	1983	1986	1987
*Number of new sun care products launched	14	49	73

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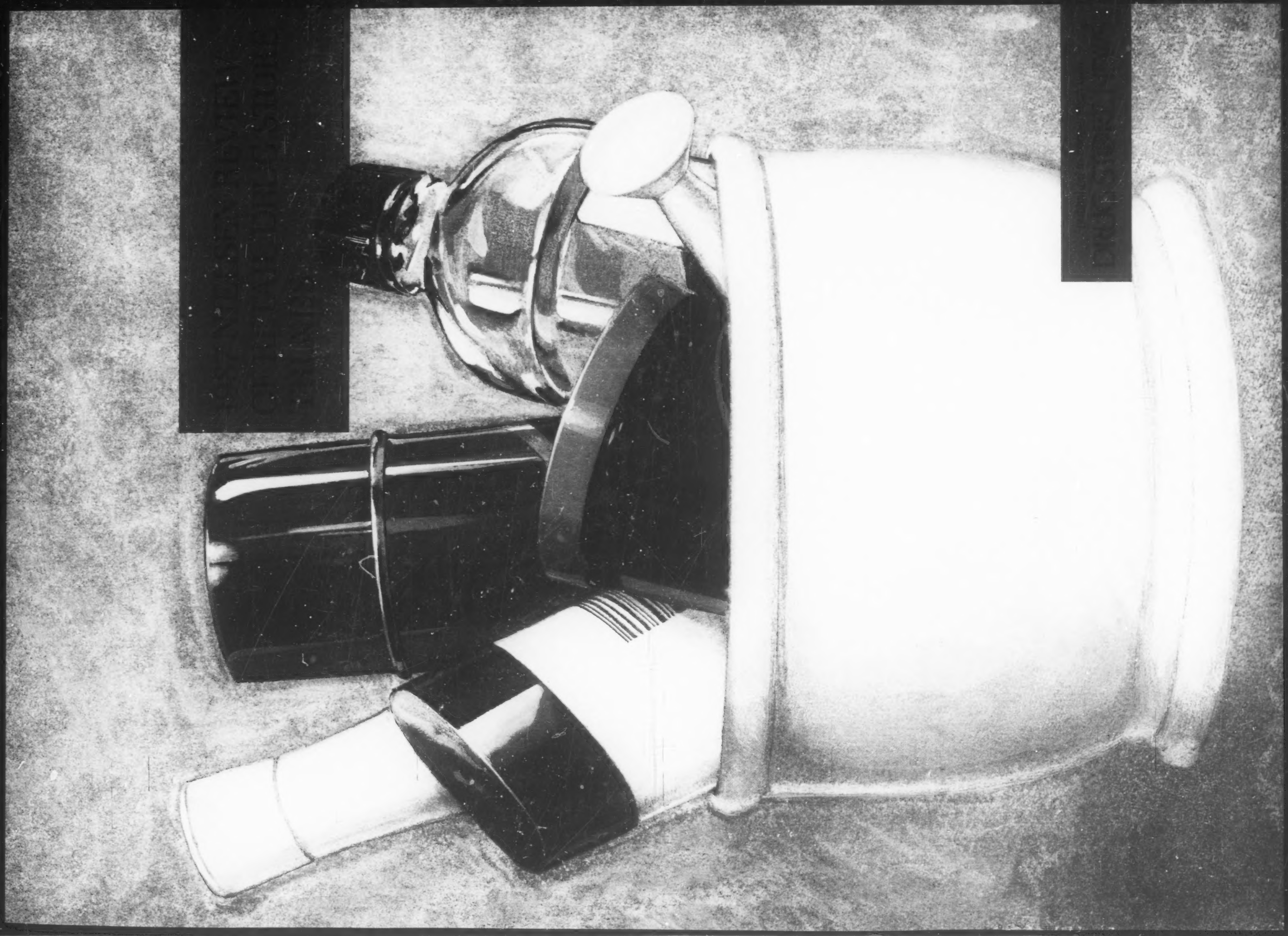

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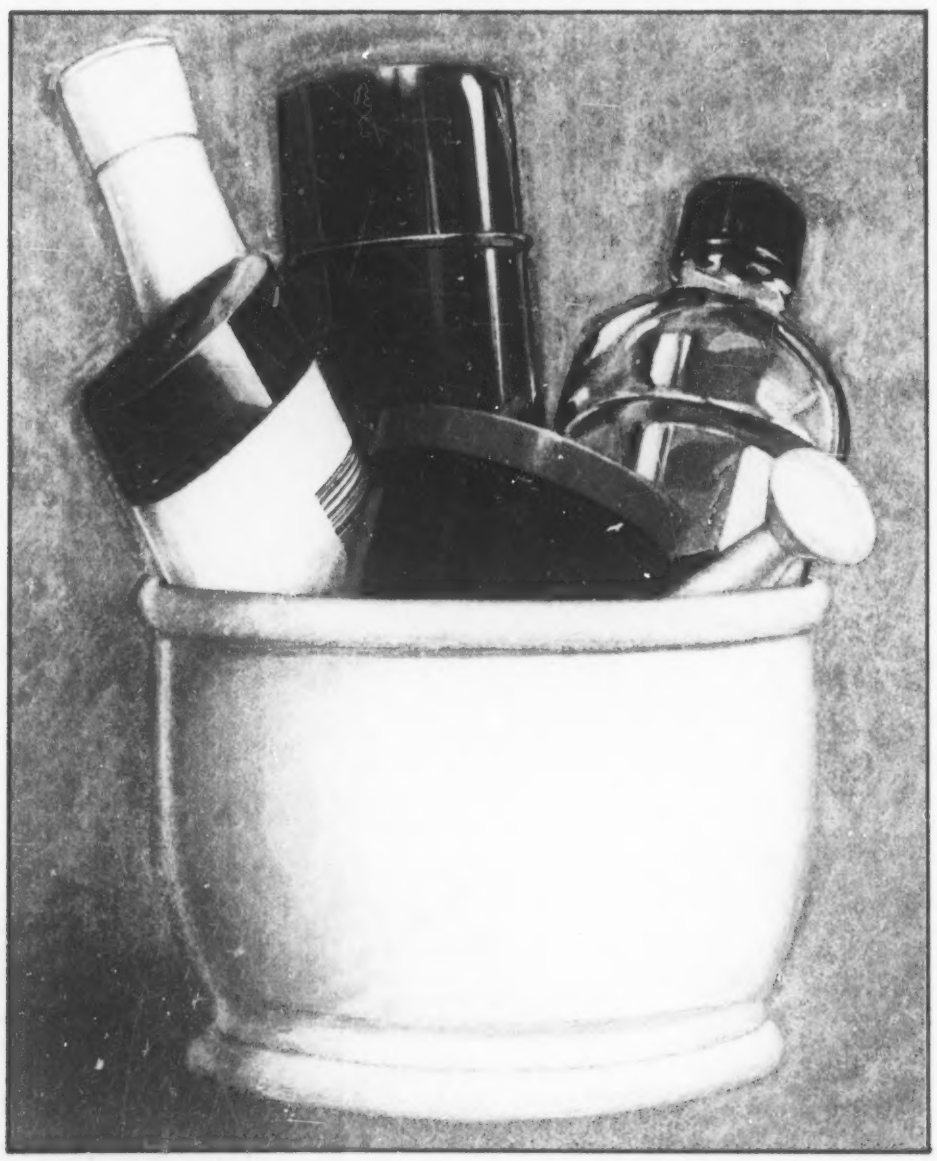
Nielsen Marketing Research would like to thank the staff of Drug Store News for their advice in assembling this review and including it in their October 12, 1987 issue.

INTRODUCTION

1987 NIELSEN REVIEW OF RETAIL DRUG STORE TRENDS



Retail drug store sales increased at a 6% rate during the first half of 1987. This represents a slight decline from last year's 7% increase for the first six months. This year's slight fall off was experienced in both dollar and unit sales.

The 6% growth rate, however, is above the rate of increase for total U.S. retail sales which was 4% for the first six months of 1987.

The information compiled by Nielsen Marketing Research and presented in this publication also shows that:

- Total U.S. retail sales growth increased 4% in the first half of 1987, also a slight decline from the previous year's growth rate. Most of the gains, in fact, were inflationary. Consumers still have money to spend, but the longer the economy remains strong, the more guarded their optimism.
- Drug chains have again begun to experience sales rate increases double those of independent drug store retailers.
- The share of HBA toiletry and remedial product sales sold in food and mass merchandisers continues to increase, at the expense of drug stores.
- Almost 71% of chain drug operations now have computers to help manage pharmacy operations.
- Drug retailer advertising which stressed improvements of store image accounted for 18% of total ad space during the last half of 1986.
- Drug retailer advertising supplements (as opposed to newspaper ads or mailers and circulars) now account for 65% of all advertising.

Drug Store News

CHAPTER I:

THE ECONOMIC ENVIRONMENT

Chart 1 U.S. Retail Sales

Total U.S. retail sales increased 5% in 1986 to $1.4 trillion dollars. This rate represents a slight decline from 1985 when total U.S. retail sales increased 7%.

The growth rate for the first six months of 1987 is also down. Growth was just 4% for the first six months of 1987.

Tax reform contributed its share to last year's retail growth, as consumers rushed to purchase big-ticket items while sales tax and consumer credit interest were still deductible.

Wall Street celebrated the fifth anniversary of the "bull market" this year, and much of the optimism surrounding the strong economy has turned guarded. Concerned that the economy could lose its strength anytime, many consumers are moving now on major purchases.

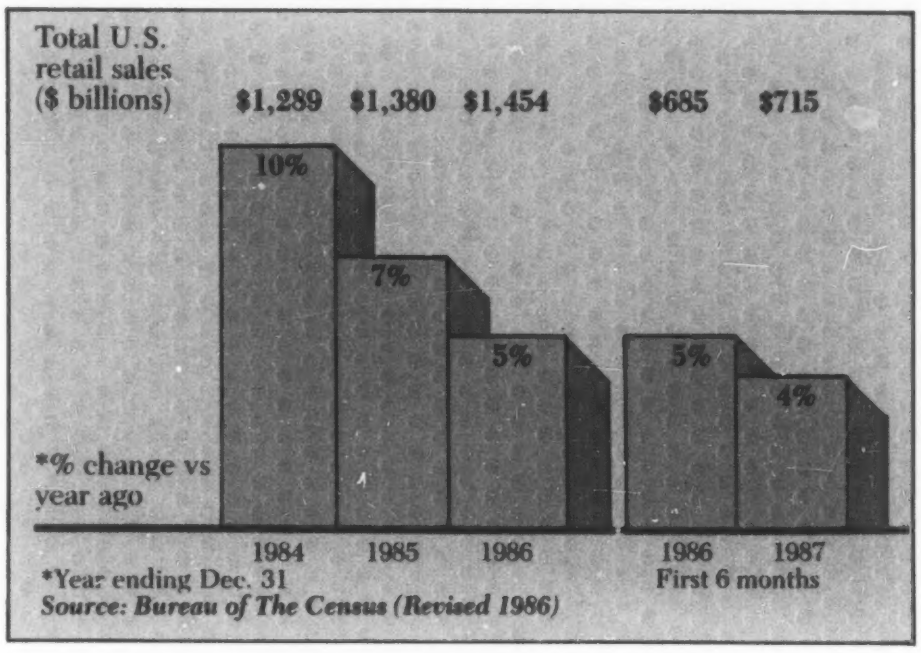
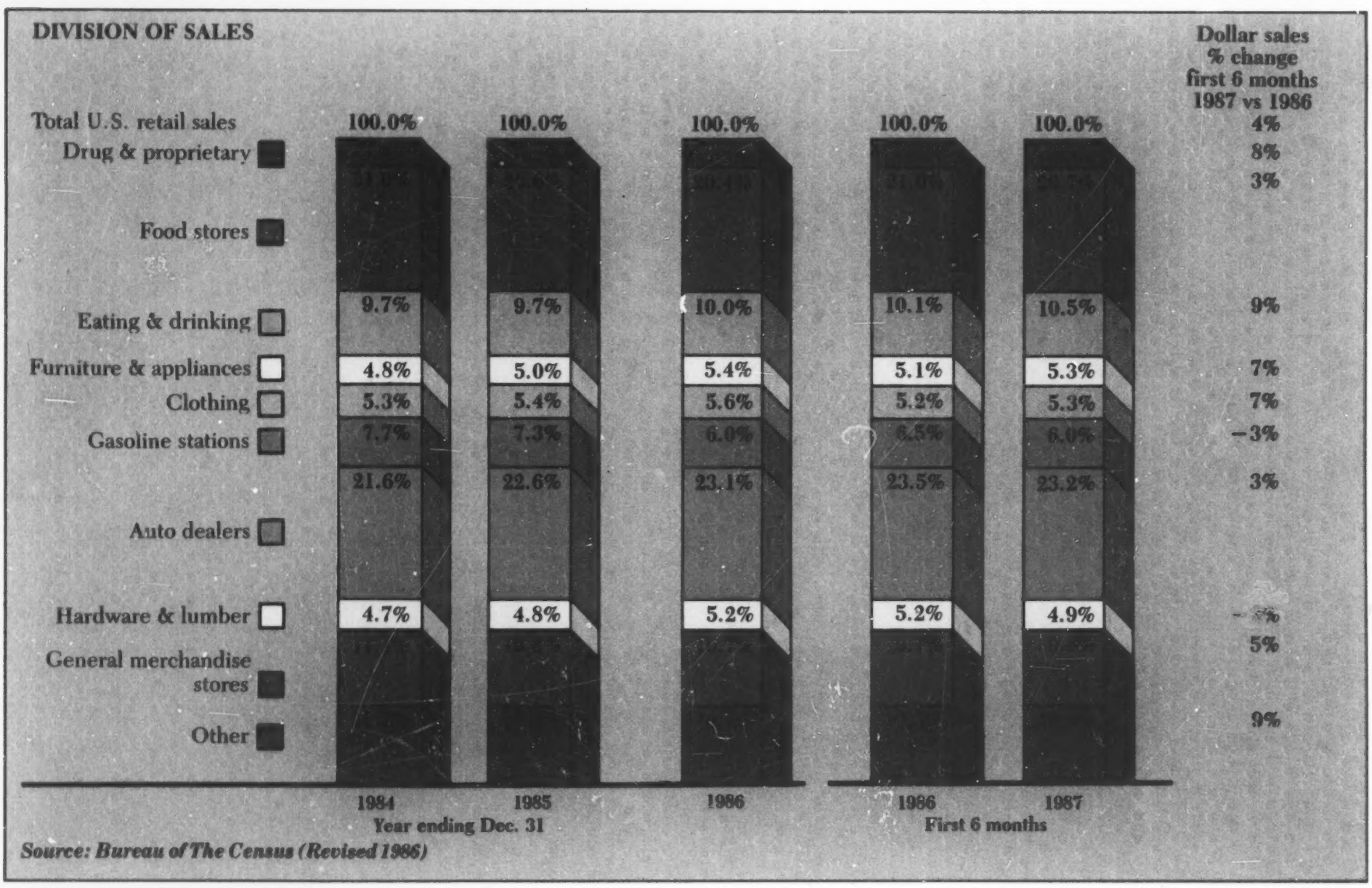


Chart 2 Division of U.S. Retail Sales



Drug stores' share of total U.S. retail sales was 3.4% last year. For the first six months of 1987, their share was 3.5%, inching up from last year as sales in drug stores remain stronger than in many other retail areas.

Eating and drinking establishments have shown the most growth in market share so far this year, another sign of our busy times: the more households without full-time homemakers, the greater the temptation to eat out.

Gasoline stations' share of the pie continued to shrink—although not as radically as last year's 9% drop—due to depressed oil market prices. Hardware and lumber stores' sales volumes were also down in the first half of 1987 as the new housing and construction boom began to abate.

Chart 3 Consumer Price Index*

	1984	Year ending Dec. 31 —annual average 1985	1986	First 6 months 1987	% change first 6 months 1987 vs 1986
*% change vs year ago	4%	4%	2%		
Total index all items	311	322	328	337	3%
Medical care	379	403	433	456	7%
Prescription drugs	234	257	279	295	8%
Over-the-counter drugs	267	282	295	306	5%
Physicians services	377	390	428	452	8%
Dental services	327	348	367	386	6%
Hospital room	671	710	753	794	7%
Personal care	271	282	291	297	3%
Food-at-home	293	297	305	317	5%
Food-away-from-home	333	347	360	371	4%
Housing	337	350	360	367	3%
Fuel oil & other utilities	387	394	385	377	-3%
Apparel & upkeep	200	206	208	214	4%
Transportation	312	320	308	312	0%
Entertainment	255	265	274	280	3%

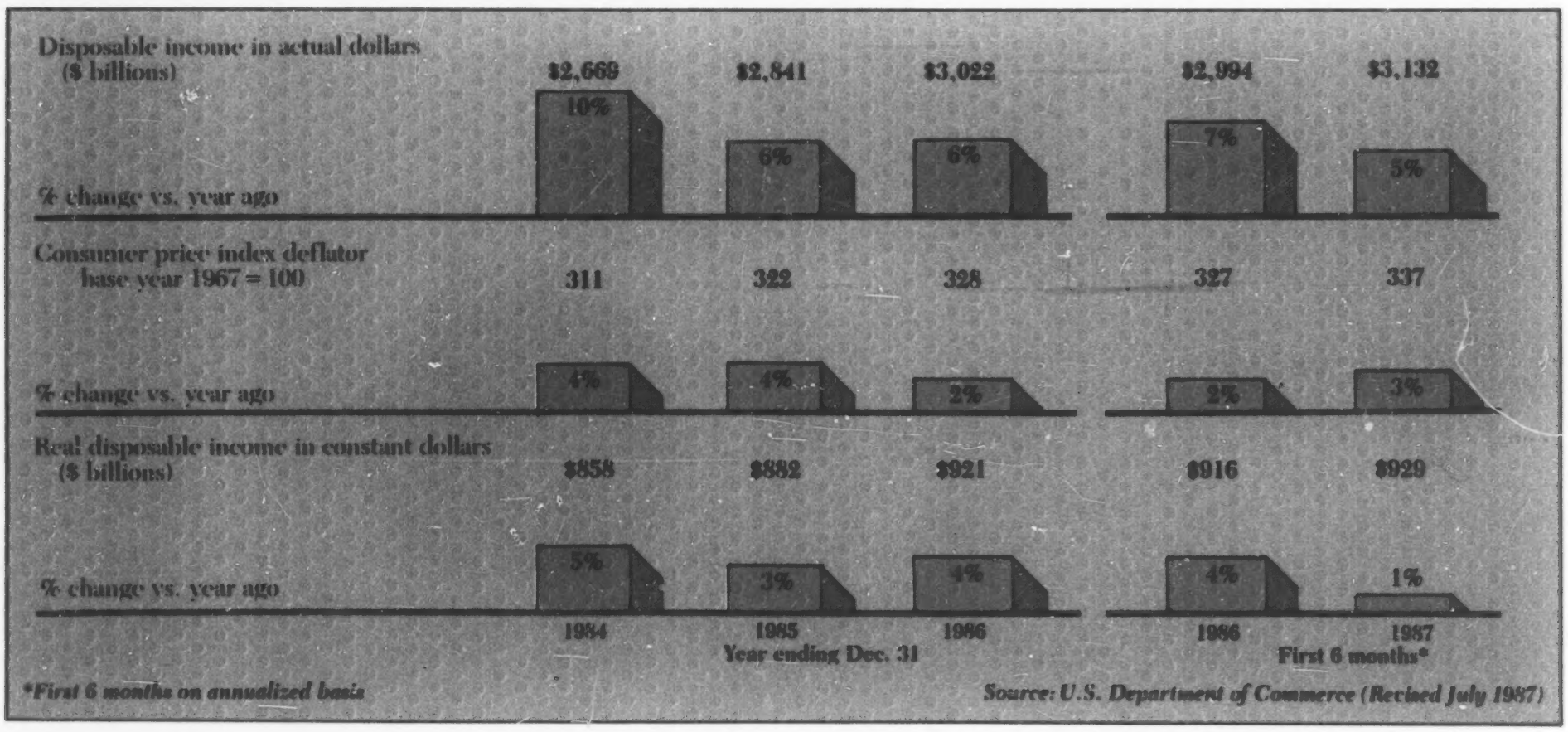
*All urban consumers, Base year 1967=100
Source: U.S. Dept of Labor

Price inflation remains low to moderate. Price inflation was 2% last year and 3% in the first half of this year.

Drugs registered substantial price increases in the first six months of 1987—8% for prescription drugs and 5% for over-the-counter medicines; however, the CPI indexes for these products were among the lowest. Personal care, which includes toiletries and personal services, showed a 3% price increase.

Continued reduction in wholesale oil prices led to a 3% decline in the consumer price of fuel oil and other utilities, making oil the only category to show a price decline in the first half of 1987.

Chart 4 Real Disposable Income Trends



*First 6 months on annualized basis
Source: U.S. Department of Commerce (Revised July 1987)

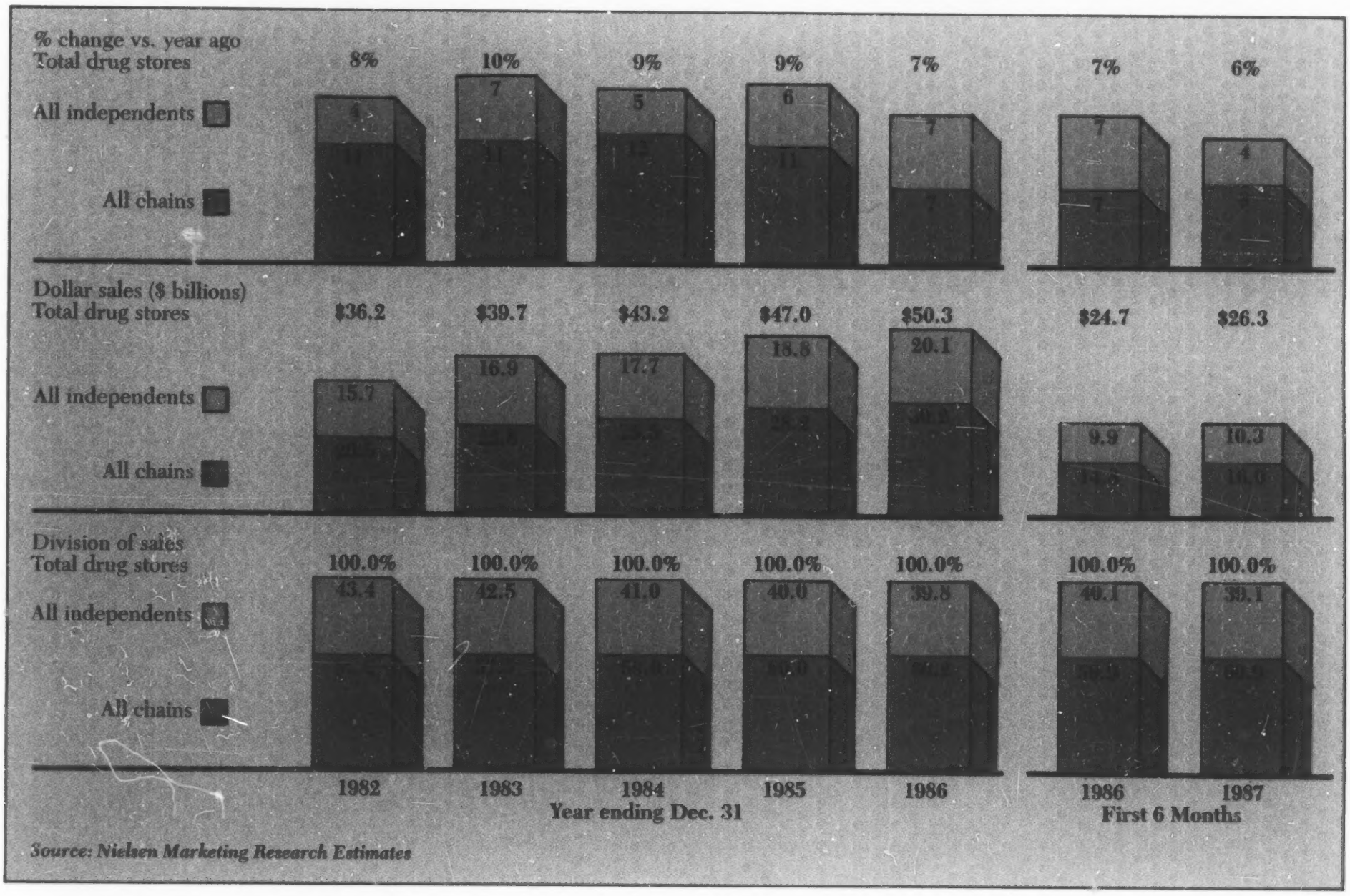
Consumers continue to have more money to spend, although growth in disposable income has moderated sightly this year—from 7% in the first half of 1986 to 5% in the first six months of this year, in actual dollars.

The growth in real disposable income has shown a sharper decline this year—from 4% in the first half of 1986 to only 1% in the same period this year, as inflation begins to pick up.

CHAPTER II:

RETAIL DRUG STORE SALES

Chart 5 U.S. Retail Drug Store Sales And Share—Chains vs. Independents



Retail drug store sales broke $50 billion last year; growth continued during the first half of 1987 but at a slightly slower pace.

Last year marked a shift in growth patterns, as both chains and independents registered 7% sales increases.

For most of the decade, chain sales had been growing at roughly twice the rate of independent drug store sales. The old pattern has made a comeback this year, however; chains showed an 8% increase in the first six months of 1987, while independents' sales grew 4%.

Chain drug store's share of the sales pie has grown steadily, from 56.6% in 1982 to 60.2% in 1986, to 60.9% in the first half of 1987.

Their strength currently appears to be in improved merchandising of over-the-counter drugs and personal care products, as well as other non-traditional drug store merchandise product lines.

Drug Store News

Chart 6 Retail Drug Store Sales—by Nielsen Retail Marketing Area

	1986 Drug Store Dollar Sales ($ millions)*	% change vs. year ago	1986 Share of U.S. Sales	Number of Households (millions)	Index Drug Store Sales Per Household U.S. = 100	Effective Buying Income ($ billions)	Index Buying Income Per Household U.S. = 100
TOTAL UNITED STATES	$50,269	7%	100.0%	87.9	$572	$2,780	$31,608
New England	2,682	10	5.3	4.6	102	167	115
Metro New York	2,544	11	5.1	5.8	77	215	117
Albany/Buffalo/Syracuse	1,585	1	3.2	2.6	106	83	100
Philadelphia	2,098	13	4.2	3.7	98	123	105
Baltimore/Washington	1,871	-2	3.7	2.9	111	108	116
Pittsburgh	1,171	9	2.3	2.4	84	66	85
Cleveland	1,393	4	2.8	2.4	100	75	97
Detroit/Grand Rapids	2,167	4	4.3	3.5	108	113	103
Indianapolis/Cincinnati/Lexington	2,324	8	4.6	4.0	103	117	94
Metro Chicago	2,038	4	4.1	2.9	125	104	115
St Louis/Peoria	1,094	4	2.2	2.2	88	67	97
Kansas City/Omaha/Iowa	1,621	3	3.2	3.7	76	112	95
Minneapolis/Wisconsin	1,836	1	3.7	3.9	83	121	98
Denver/Mountains	989	10	2.0	2.1	84	62	96
Virginia/Carolinas	2,497	11	5.0	4.5	96	127	88
Florida/South Georgia	3,039	9	6.0	4.9	108	142	91
Georgia/Alabama	2,737	11	5.4	5.1	93	139	86
Delta	2,207	6	4.4	4.0	96	104	82
Albuquerque/San Antonio/Oklahoma	1,406	3	2.8	3.7	67	103	89
Dallas/Houston	2,117	-1	4.2	4.0	94	134	107
Southern California	4,026	9	8.0	6.0	116	214	112
Boise/Salt Lake/Phoenix	1,216	17	2.4	2.0	105	57	89
Northern California	3,873	12	7.7	4.1	167	144	112
Seattle/Portland	1,739	0	3.5	2.8	107	83	93

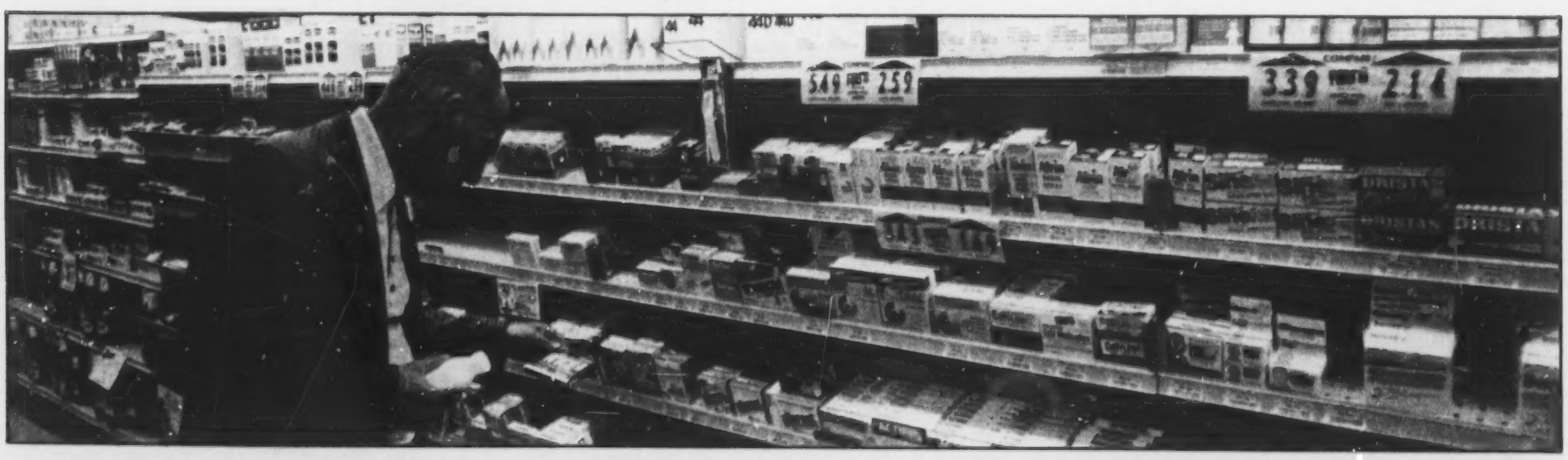
**Year ending Dec. 31*

Source: Nielsen Market Research estimates, Market Statistics estimates

Drug store sales increased an average of 7% across the U.S. in 1986. Coming in with increases well above the national average were the Boise/Salt Lake/Phoenix area (+ 17%), Philadelphia (+ 13%), Northern California (+ 12%), and Virginia/Carolinas, Georgia/Alabama and Metro New York (all + 11%).

Only three areas had no increase in drug store sales last year—Seattle/Portland (- 0%), Dallas/Houston (- 1%), and Baltimore/Washington (- 2%).

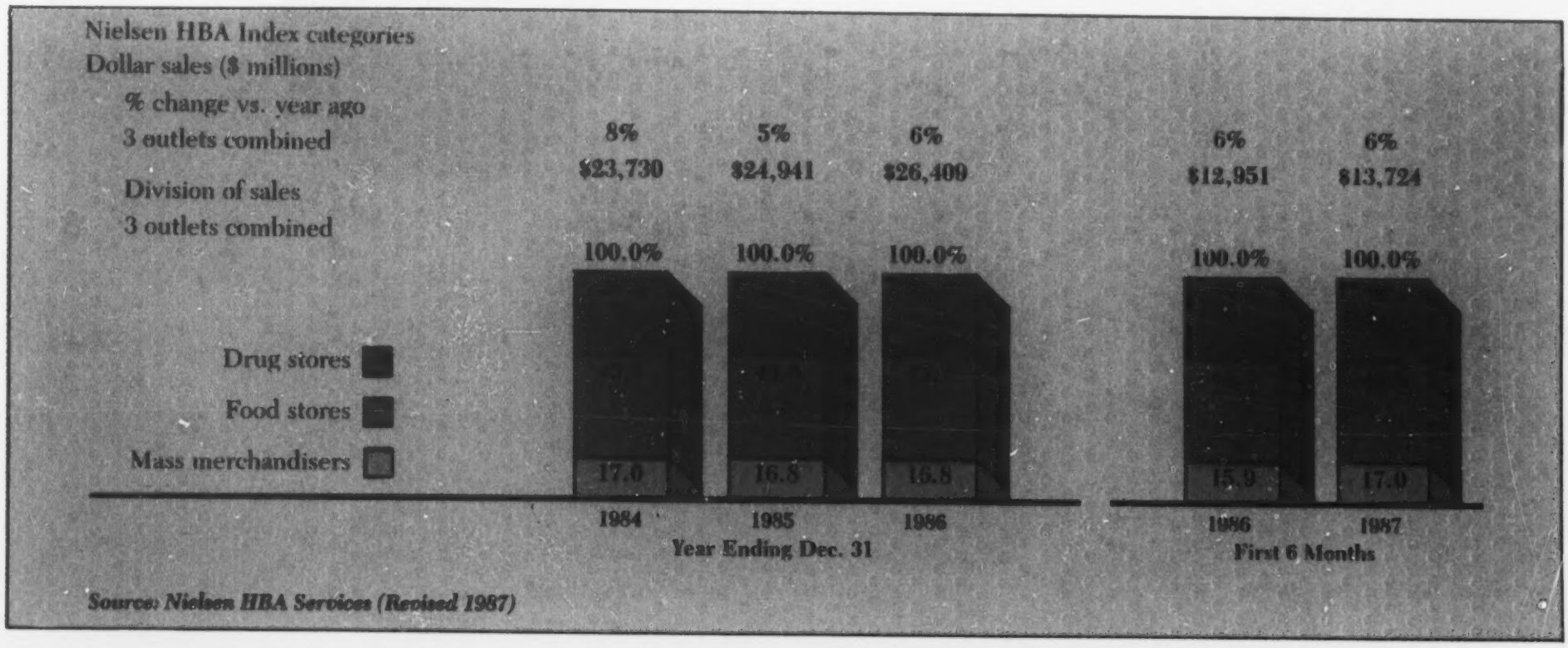
Total drug store sales per capita is highest in Northern California, the Chicago area, Southern California, and Baltimore/Washington. One-stop shopping is especially popular in these areas, and drug stores have been successful with a wide variety of merchandise.



CHAPTER III:

HBA SALES TRENDS

Chart 7 HBA Division Of Sales—Drug vs. Food vs. Mass Merchandisers



Total dollar sales of the categories that comprise the Nielsen HBA Index are increasing at a rate of 6% a year. Sales were $26.4 billion last year, and at mid-year 1987, sales in these categories stood at $13.7 billion.

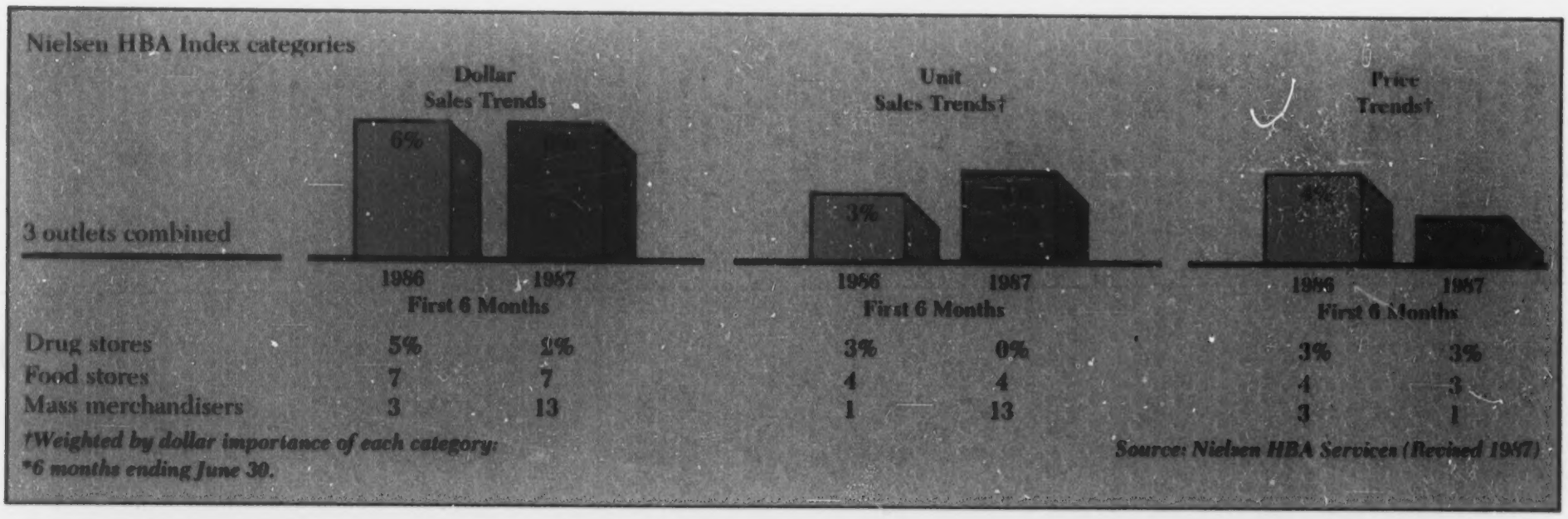
Drug stores' share of the 66 HBA Index categories sales is still being eroded by food stores, which accounted for 44.6% of HBA dollar sales in the first half of this year.

Drug stores' share declined from 39.7% a year ago to 38.4% in early 1987. Mass merchandisers, whose 16.8% share did not increase in 1986, reported a 17.0% share in the first half of 1987.

The Nielsen HBA Index is currently composed of 66 selected over-the-counter toiletry, cosmetic remedial and paper goods categories. No prescription items are included.

(See Chart 11 for a complete list of the 66 Nielsen HBA categories.)

Chart 8 HBA Sales And Price Trends—Drug vs. Food vs. Mass Merchandisers (% change vs. year ago*)


Nielsen HBA Index categories
Dollar Sales Trends
Unit Sales Trends†
Price Trends†
3 outlets combined
6%
3%
1986
1987
First 6 Months
Drug stores 5% 2% 3% 0% 3% 3%
Food stores 7 7 4 4 4 3
Mass merchandisers 3 13 1 13 3 1
†Weighted by dollar importance of each category.
*6 months ending June 30.
Source: Nielsen HBA Services (Revised 1987)

Unit sales of the 66 categories that comprise the Nielsen HBA Index in mass retailer outlets increased 4% between the first six months of 1986 and the same period in 1987.

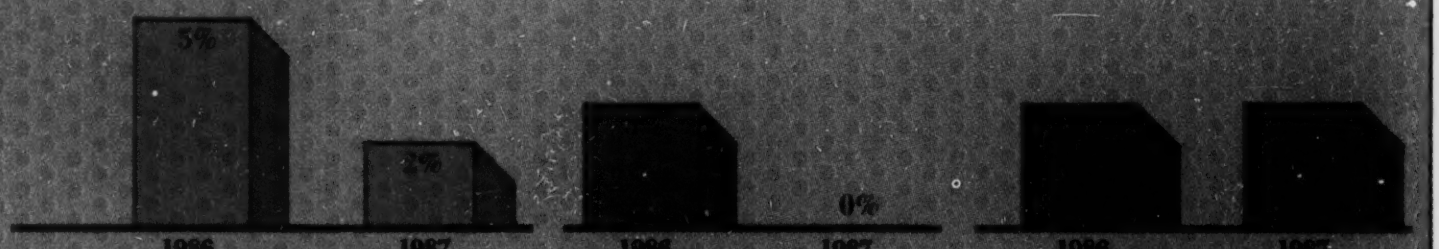
Prices, which had increased 4% in the first half of 1986, rose only 2% so far this year.

Drug stores' HBA unit sales showed no increase in the first half of 1987 after a 3% climb a year ago. Food stores maintained a 4% increase in unit sales for the period, while mass merchandisers unit sales climbed 13% in the first half of this year.

Both food and mass merchandiser sales strengths appeared in toiletries and personal care and remedial products categories while mass merchandisers also enjoyed strong growth in paper products and selected sundries.

The total dollar volume of the 66 categories in the Nielsen HBA Index represented 20.4% ($10.3 billion) of total drug store sales and 4.1% ($11.7 billion) of total food store volume.

■ ■ Chart 9 HBA Sales and Price Trends—Drug Stores (% change vs. year ago*)



Total Nielsen HBA Index categories	Dollar Sales Trends 1986	Dollar Sales Trends 1987	Unit Sales Trends*† 1986	Unit Sales Trends*† 1987	Price Trends 1986	Price Trends 1987
	First 6 months		First 6 months		First 6 months	
Total toiletries	5%	3%	3%	0%	3%	3%
Men's products	7	6	3	2	4	4
Skin care	1	7	−2	3	4	3
Hair care	5	−2	7	−4	−1	2
Oral hygiene	7	5	3	−1	4	6
Color cosmetics	7	3	4	1	3	3
Other toiletries	4	3	0	0	4	3
Total remedial	6	2	3	−1	3	4
Cold/cough/flu/sinus remedies	8	2	2	−2	6	4
Analgesics/digestive remedies	4	0	3	−3	2	4
External medicines	9	10	6	8	3	2
Paper goods	5	0	−1	−2	6	2
Selected sundries	4	6	5	6	−1	0

*6 months ending June 30
†Weighted by dollar sales importance

Source: Nielsen HBA Services (Revised 1987)

HBA dollar sales in drug stores increased 2% during the first part of 1987.

Categories performing above average were external medicines (+ 10%) particularly contact lens solutions which is classified in that group.

In addition, skin care products (+ 7%) including bath oil and suntan lotions; and men's products (+ 6%) including aftershave lotion and cologne are trending above average.

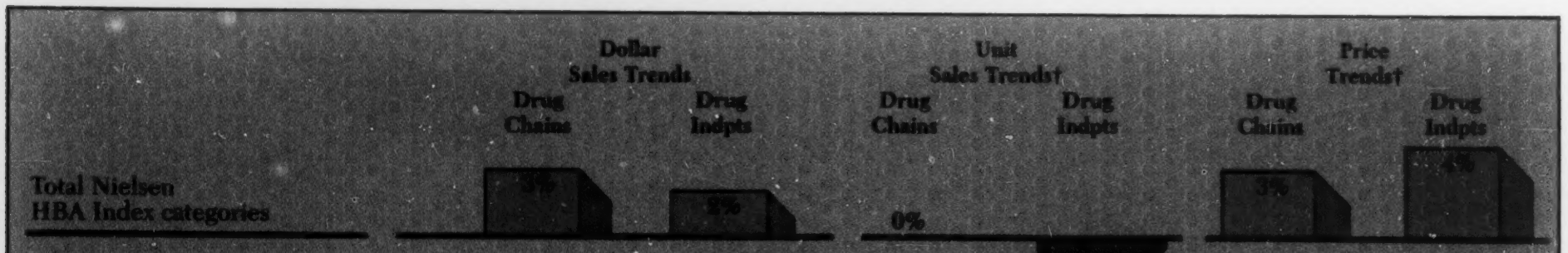
In selected sundries (+ 6%) the battery category is strong.

Even so, unit growth in drug stores is at a stand still and even below a year ago in the hair care and internal remedial categories.

Drug Store News

HBA SALES TRENDS

Chart 10 HBA Sales and Price Trends—Drug Chains vs. Independents
(% change vs. year ago*)



	Dollar Sales Trends		Unit Sales Trends†		Price Trends†	
	Drug Chains	Drug Indpts	Drug Chains	Drug Indpts	Drug Chains	Drug Indpts
Total toiletries	**2%**	**4%**	**0%**	**1%**	**3%**	**4%**
Men's products	7	3	3	−2	4	5
Skin care	6	8	4	2	2	7
Hair care	− 2	−2	−4	−3	2	2
Oral hygiene	4	7	−1	1	6	5
Color cosmetics	1	9	−1	8	3	1
Other toiletries	3	2	0	−1	2	4
Total remedial	4	−1	0	−4	4	4
Cold/cough/flu/sinus remedies	4	−2	0	6	4	5
Analgesics/digestive remedies	2	−2	−2	−5	4	4
External medicines	11	7	9	3	2	4
Paper goods	0	0	−2	−3	2	3
Selected sundries	6	3	7	0	−1	3

**6 months ending June 30, 1987 vs. 1986*
†Weighted by dollar sales importance

Source: Nielsen HBA Services (Revised 1987)

Drug chains dollar sales of the 66 categories in the Nielsen HBA Index increased by 3% during the first six months of this year, while HBA dollar sales in independent drug stores increased at a 2% rate. Price inflation is currently accounting for all growth.

Even so, there were some categories that are turning in outstanding performances including external remedies, and skin care in both chains and independents and color cosmetics and cough/cold products in independents.

The total dollar volume of the 66 categories in the Nielsen HBA Index now represents 25.6% of chain drug total volume and 12.8% of independent total volume.

Drug Store News

Chart 11 HBA Category Sales Trends—Drug Stores (% change vs. year ago*)

Nielsen HBA Index categories

3 Categories Showing Major Increase in Dollar Sales (greater than +10%)

MOUTHWASH
BATH OIL
SINUS REMEDIES

19 Categories Showing Moderate Increase in Dollar Sales (+6% to +10%)

CONTACT LENS SOLUTIONS
SUNTAN LOTIONS & OILS
NASAL SPRAY
EXTERNAL ANALGESICS
AFTERSHAVE LOTION/COLOGNE
FACE MAKEUP
LIP MAKEUP
FOOT REMEDIES
EARLY PREGNANCY TEST
HAND & BODY LOTIONS
ACNE REMEDIES
LAXATIVES
TOOTHBRUSHES
BATTERIES
HAIR FIXATIVES
COUGH DROPS
DIAPER RASH CREAMS
DENTAL FLOSS
BLADES & RAZORS

19 Categories Showing Increase in Dollar Sales (+1% to +5%)

DIARRHEA REMEDIES
EYE DROPS & LOTIONS
INSECT REPELLENTS
INTERNAL ANALGESICS
BABY OIL
DEPILATORIES
SLEEPING TABLETS
WOMEN'S FRAGRANCES
FACE CREAMS & LOTIONS
HAIR COLOR
DEODORANTS
COLD REMEDIES
TOPICAL HYDROCORTISONES
HEMORRHOID PREPARATIONS
CHAPPED LIP PREPS
SANITARY PROTECTION
FEMININE DOUCHES
BABY BATH
PRE-MOISTENED TOWELETTES

6 Categories Showing No Increase or Decrease in Dollar Sales (0%)

BABY POWDER
STOMACH REMEDIES/ANTACID
BABY LOTION
DENTIFRICE
DENTURE ADHESIVES
SHAMPOO

11 Categories Showing Decrease in Dollar Sales (−1% to −5%)

DENTURE CLEANSERS
TALC/DUSTING POWDER
COTTON SWABS
SHAVING CREAM
EYE MAKEUP
AFTER SHAMPOO
DISPOSABLE DIAPERS
MEN'S HAIR PREPS
WOMEN'S CONTRACEPTIVES
COUGH SYRUP
VITAMINS

5 Categories Showing Moderate Decrease in Dollar Sales (−6% to −10%)

THROAT LOZENGERS
NAIL COLOR
ARTHRITIC REMEDIES
HOME WAVE KITS
ETHNIC HAIR PREPS

3 Categories Showing Major Decrease in Dollar Sales (greater than −10%)

DIETING AIDS
PET FLEA COLLARS
MOUSSE

6 months ending June 30, 1987 vs. 1986

Forty-one product categories registered dollar sales increases in the first half of 1987, ten fewer than last year.

Bath oil, on the greater than sales increase list last year, continued its strong showing, and sinus remedies jumped from the 1-to-10% sales increase category in 1986 to the greater than growth list in 1987.

It should be noted that the diet aids category shown here does not include meal replacement products.

CHAPTER IV:

HBA INVENTORY TRENDS

Chart 12 Division of Selected HBA Category Dollar Sales (Drug vs. Food vs. Mass Merchandise Stores*)

	First 6 Months 1986 Drug	First 6 Months 1987 Drug	Food	Mass Merchandisers
Total Nielsen HBA Index categories	39.7%	38.4%	44.6%	17.0%
Selected HBA categories				
Aftershave lotion/cologne	62.1%	64.9%	17.2%	18.7%
Topical hydrocortisones	64.9	62.9	26.1	10.9
Color cosmetics	61.2	60.1	18.7	21.2
Ethnic hair preps	61.9	60.0	26.0	14.0
Foot remedies	61.1	59.4	27.9	12.8
Laxatives	60.0	58.8	29.2	12.0
Face makeup	59.5	58.5	18.9	22.6
Vitamins	59.8	57.6	29.1	13.3
Face creams & lotions	57.3	57.3	24.3	18.4
Depilatories	58.3	57.1	25.1	17.8
Hair color	54.5	52.0	20.0	27.2
Suntan lotions & oils	52.5	50.1	25.3	24.6
Home wave kits	51.5	48.7	20.6	30.6
Bath oil	47.7	46.8	32.9	20.4
Cold remedies	47.3	44.9	45.0	10.1
Hand & body lotions	45.3	44.1	37.2	18.7
Stomach remedies/antacid	45.4	43.3	43.5	13.2
Feminine douches	40.7	39.3	40.7	20.0
Men's hair preps	37.3	37.0	44.9	18.1
Sinus remedies	37.1	36.7	51.9	12.3
Toothbrushes	39.0	38.4	46.1	17.4
After shampoo	37.6	35.8	44.1	20.1
Internal analgesics	36.8	35.4	52.6	12.0
Mousse	37.6	33.9	42.0	24.1
Shaving cream	32.5	31.2	48.3	20.5
Blades & razors	29.8	30.8	50.5	19.8
Hair fixatives	30.1	29.0	45.9	25.0
Baby oil	30.7	28.8	44.0	27.2
Mouthwash	29.6	28.6	53.2	18.2
Deodorants	28.7	27.7	51.1	21.2
Shampoo	28.2	27.3	51.5	21.2
Cotton swabs	26.6	25.4	53.8	20.8
Sanitary protection	25.7	24.5	60.3	15.2
Dentifrice	23.1	22.3	60.0	17.7
Pre-moistened towelettes	16.6	15.0	62.6	22.4
Disposable diapers	10.2	9.6	77.2	13.2

*6 months ending June 30

Source: Nielsen HBA Services (Revised 1987)

Of the 36 selected categories examined, aftershave lotions and colognes edged out topical hydrocortisone products this year as "The Product Most Likely to Be Bought in Drug Stores."

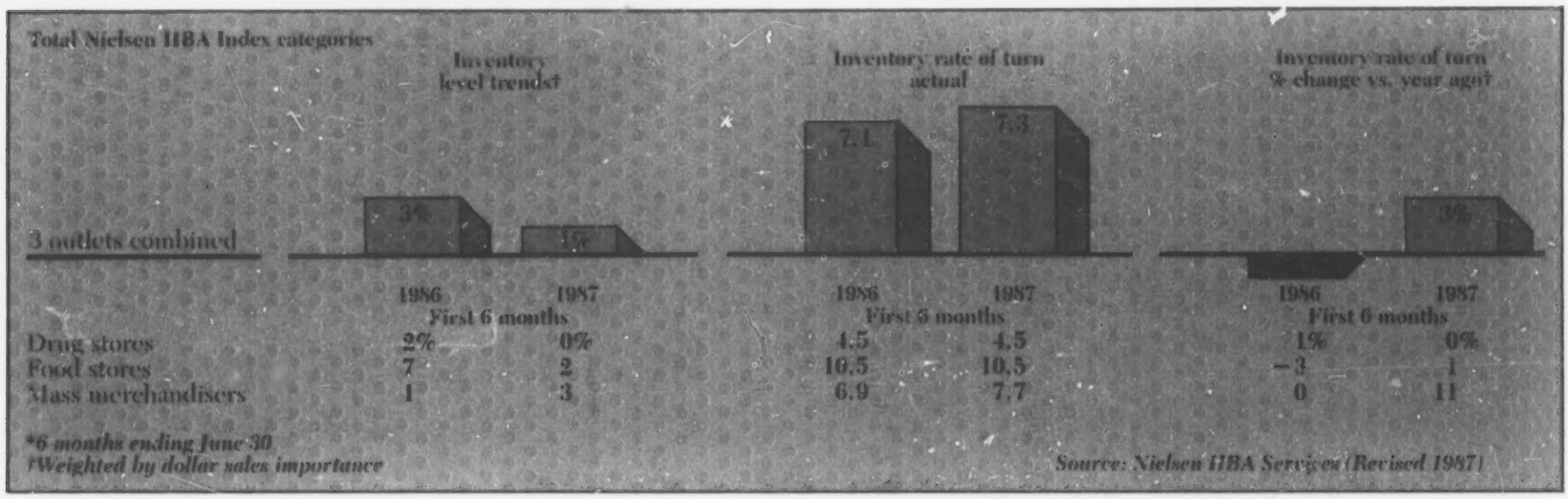
Sixty-four percent of aftershave lotion/cologne sales were in drug stores in the first half of 1987, up from 57.7% a year ago.

The bad news is that the aftershave category was the only one of the 36 listed in which drugstores increased their share of sales this year.

Drug stores' share of face cream and lotion sales remained steady—57.3%, while their share in the 34 other categories declined.

Food stores accounted for at least 50% of sales in 11 of the categories listed. Food stores dominate the disposable diaper market by a large margin. Mass merchandisers, while they do not have a majority share of sales in any category, continue to increase their share of the HBA sales pie.

Chart 13 HBA Inventory Trends—Drug vs. Food vs. Mass Merchandisers (% change vs. year ago*)



HBA inventory levels edged up 1% in the first half of 1987 after a 3% increase in the same period last year.

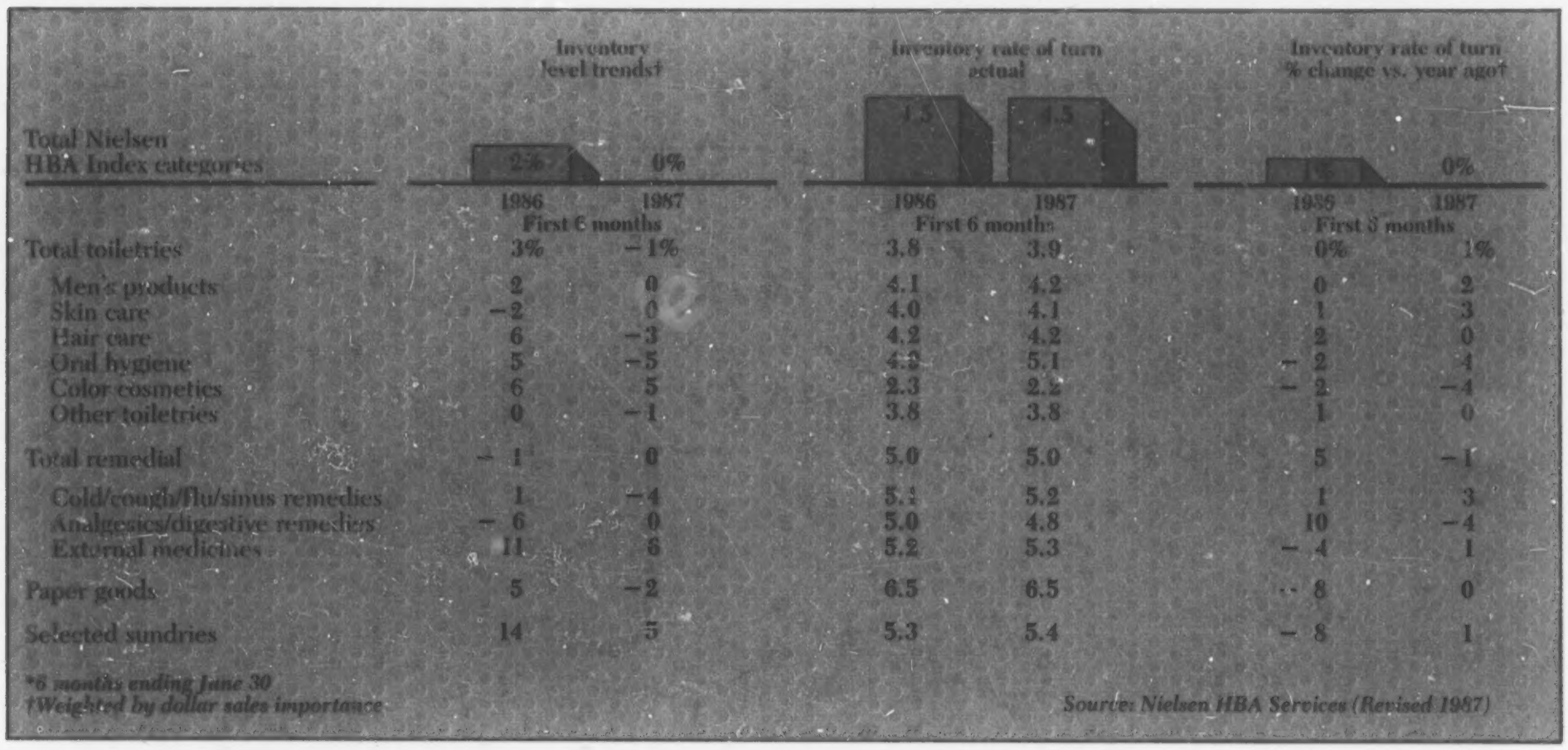
Drug stores' inventory levels were unchanged; food stores increased their HBA inventories at a slower pace than a year ago—2% as compared to 7%; and mass merchandisers added 3% more inventory.

Of the three types of outlets, food stores have the highest HBA turn rate, and drug stores have the lowest.

Both food and drug stores' rates, however, did not increase between the firse half of 1986 and the first half of 1987, while mass merchandisers increased their rate from 6.9 to 7.7

Overall turn rates are up 3% for all outlets, after a 1% decline a year ago. The increase has come from mass merchandisers, whose turn rate was up 11% this year.

Chart 14 HBA Inventory Trends—Drug Stores (% change vs. year ago*)


Inventory level trends†
Inventory rate of turn actual
Inventory rate of turn % change vs. year ago†
Total Nielsen HBA Index categories
2%
0%
4.5
4.5
0%
1986 1987
First 6 months
1986 1987
First 6 months
1986 1987
First 6 months
Total toiletries 3% −1% 3.8 3.9 0% 1%
Men's products 2 0 4.1 4.2 0 2
Skin care −2 0 4.0 4.1 1 3
Hair care 6 −3 4.2 4.2 2 0
Oral hygiene 5 −5 4.3 5.1 −2 4
Color cosmetics 6 5 2.3 2.2 −2 −4
Other toiletries 0 −1 3.8 3.8 1 0
Total remedial −1 0 5.0 5.0 5 −1
Cold/cough/flu/sinus remedies 1 −4 5.1 5.2 1 3
Analgesics/digestive remedies −6 0 5.0 4.8 10 −4
External medicines 11 6 5.2 5.3 −4 1
Paper goods 5 −2 6.5 6.5 −8 0
Selected sundries 14 5 5.3 5.4 −8 1
*6 months ending June 30
†Weighted by dollar sales importance
Source: Nielsen HBA Services (Revised 1987)

There was no increase in drug store inventory levels in the first six months of this year. Inventory stockturn rates remained at an annual average of 4.5 time per year—the same as a year ago.

Turn rates for toiletries edged up slightly as hair care and oral hygiene inventories were reduced.

External medicines (contact lens solutions) and sundries, (batteries) have been the only categories with both increased inventory levels and improved turn rates as sales have more than paced inventory build ups.

Overall inventory levels for remedial products were unchanged; for toiletries, inventory levels were down 1%; for paper goods, they were down 2%.

HBA INVENTORY TRENDS

Chart 15 HBA Inventory Trends—Drug Chains vs. Independents (% change vs. year ago*)

Total Nielsen HBA Index categories	Inventory level trends† Drug Chains	Inventory level trends† Drug Indpts	Inventory rate of turn actual† Drug Chains	Inventory rate of turn actual† Drug Indpts	Inventory rate of turn change vs. year ago† Drug Chains	Inventory rate of turn change vs. year ago† Drug Indpts
Total toiletries	1%	– 5%	4.4	2.5	–1%	5%
Men's products	3	– 6	5.0	2.4	0	5
Skin care	2	– 4	4.8	2.6	1	6
Hair care	– 2	– 8	4.6	2.9	–2	6
Oral hygiene	– 4	– 6	5.6	3.6	3	7
Color cosmetics	6	1	2.5	1.4	–7	6
Other toiletries	1	– 4	4.4	2.2	–1	3
Total remedial	5	– 7	5.8	3.7	–4	3
Cold/cough/flu/sinus remedies	2	–12	6.1	3.9	–2	7
Analgesics/digestive remedies	4	– 5	5.6	3.7	–5	0
External medicines	11	– 4	6.1	3.7	–2	8
Paper goods	– 1	– 6	7.2	3.9	1	2
Selected sundries	7	– 3	5.8	3.8	0	3

6 months ending June 30, 1987 vs. 1986
†Weighted by dollar sales importance

Source: Nielsen HBA Services (Revised 1987)

Independent drug store retailers decreased their inventories by 6% in the first six months of 1987. Inventory levels decreased in all categories except color cosmetics. This helped turnover rates (inventory efficiency) increase by an average of 3% for the 66 Nielsen HBA Index categories.

The increased inventories in chain stores were not commensurate with sales: turnover rates in chain stores declined 2% from a year ago.

CHAPTER V:

SPACE ALLOCATION

Chart 16 HBA Average Linear Feet Of Shelf Space By Store Type *

	Drug Chains		Drug Large Independents		Food Chains Over $2 million		Mass Merchandise	
	1986	1987	1986	1987	1986	1987	1986	1987
SELECTED TOILETRIES & PERSONAL CARE								
After shave lotion/cologne	30 ft	31	22 ft	19 ft	7 ft	8 ft	20 ft	20 ft
Dentifrice	54	59	22	20	37	48	61	58
Denture adhesive/cleanser	26	23	14	14	11	11	23	21
Deodorants	64	67	25	28	42	49	96	103
Face creams & lotions	25	27	13	14	8	11	20	21
Hair coloring	71	72	30	24	19	20	76	75
Hair fixitives	41	45	16	14	19	24	61	61
Hair preparations	72	70	29	28	34	36	80	73
Hand lotions & creams	30	30	16	18	14	15	33	35
Home wave kits	16	16	10	8	5	6	21	21
Mouthwash	30	31	11	11	19	19	45	47
Shampoos	69	69	31	28	43	44	87	87
Shaving cream	19	23	10	9	11	12	27	27
SELECTED REMEDIAL CATEGORIES								
Acne remedies	19	18	13	14	7	8	15	15
Stomach remedies/antacids	37	36	26	24	14	15	36	37
Chest rubs	7	7	6	5	3	3	3	4
Cold & sinus remedies	47	47	29	30	22	22	33	34
Cough syrups	26	19	14	12	8	8	13	13
Internal Analgesics	57	59	32	33	28	31	49	51
Laxatives	38	38	28	26	11	11	24	23
Nasal sprays & drops	10	10	8	7	5	5	7	7
Vitamins	85	90	61	54	34	36	90	91
SELECTED PAPER PRODUCTS								
Disposable diapers	48	49	12	13	57	60	58	58
Sanitary napkins	57	57	23	23	39	43	74	75
Tampons	20	20	9	10	12	14	21	21

**End of April Basis for space allocation*

Source: Nielsen HBA Services Survey

Of 25 selected categories surveyed in 1987, drug chains allocated additional shelf space to 11 categories, with vitamins, shaving cream and dentifrice the largest gainers.

Less space was allocated to denture adhesives and cleansers, hair preparations, acne remedies, stomach remedies, and cough syrups.

Independents gave additional space to seven of the 25 categories listed, but no category was given more than two extra feet.

Independents decreased the shelf space allocated to 15 categories. Vitamins and hair coloring lost the most space.

Food chains increased the shelf space for 18 categories, while mass merchandisers increased space for 10 categories.

Drug Store News

SPACE ALLOCATION

Chart 17 HBA Average Dollar Sales Per Month Per Linear Foot Of Space Allocation By Store Type

	Drug Chains		Drug Large Independents		Food Chains Over $2 million		Mass Merchandisers	
	1986	1987	1986	1987	1986	1987	1986	1987
SELECTED TOILETRIES & PERSONAL CARE								
Hair preparations	$ 3.13	$ 3.19	$ 1.94	$ 2.19	$ 5.35	$ 5.54	$ 4.50	$ 4.98
Dentifrice	20.58	18.77	9.82	11.38	55.64	44.96	40.24	45.26
Denture adhesives/cleansers	17.45	19.78	8.58	8.54	32.89	34.92	NA	NA
Deodorants	25.63	25.37	11.04	12.20	48.43	46.23	35.65	37.58
Face creams & lotions	44.15	39.39	22.21	22.53	45.95	36.05	51.68	54.98
Hair coloring	16.44	17.47	7.54	9.68	19.06	22.34	22.70	24.88
Hair sprays	17.52	17.16	9.61	12.36	38.81	35.74	28.49	35.20
Hand & body lotions	26.43	27.22	16.33	15.96	36.21	38.30	29.37	32.66
Home wave kits	20.90	19.37	7.68	8.46	20.77	18.36	26.75	26.90
Mouthwash	19.53	20.75	13.70	15.70	40.71	48.60	25.71	28.37
Shaving Cream	15.22	12.59	7.26	8.45	26.82	26.52	20.62	21.99
Shampoos	22.23	21.98	12.02	14.62	48.37	49.65	37.89	41.90
SELECTED REMEDIAL PRODUCTS								
Acne Remedies	17.76	19.17	9.48	9.18	31.06	31.98	14.69	18.40
Stomach remedies/antacids	26.99	28.52	17.58	18.51	47.15	50.91	30.00	32.68
Internal analgesics	42.41	44.14	29.52	28.93	87.78	93.67	56.70	62.49
Laxatives	28.65	29.48	18.44	20.20	39.42	45.92	30.68	38.15
Nasal sprays & drops	29.91	31.84	15.85	20.11	41.32	48.92	36.49	36.25
Vitamins	22.33	19.95	14.85	15.50	26.32	26.39	16.09	18.33
SELECTED PAPER PRODUCTS								
Disposable diapers	29.48	27.12	17.14	15.54	109.16	113.67	76.31	92.99
Sanitary protection	21.24	21.75	12.47	12.55	49.36	50.95	26.17	32.89

Year ending April 30 for sales
NA = Not available

Source: Nielsen HBA Services (Revised 1987)

Internal analgesics, which suffered from tampering incidents in early 1986, this year became the highest selling, in dollar sales, of 20 selected categories in both drug chains and independents.

Analgesic sales averaged $42.41 per linear foot per month in chain stores and $28.93 per foot per month in independents.

The face cream and lotion category, last year's top selling category in chain stores, has been the chains' second highest seller this year, with monthly sales of $39.39 per linear foot. The category's monthly sales in independent drug stores averaged $22.53 per foot.

Disposable diapers are still the top selling category of the 20 examined in large chain grocery stores and mass merchandisers. Disposable diapers had sales of $113.67 per foot per month in supermarkets and $92.99 in mass merchandise outlets.

CHAPTER VI:

DRUG STORE MERCHANDISING

Chart 18 Drug Store Merchandising/Operation Strategies—Drug Chains (All commodity volume basis)*

	Total U.S.	New England	Metro New York	Middle Atlantic	East Central	Metro Chicago	West Central	Southeast	Southwest	Metro Los Angeles	Pacific
Open 24 hours	5%	0%	0%	12%	15%	19%	5%	3%	0%	0%	0%
Pharmacy computer system	71	43	72	62	86	86	82	82	86	52	56
Cosmetician	34	28	36	36	18	73	52	39	33	24	29
Pre-recorded video tapes	14	15	6	27	13	21	7	15	26	0	7
Film developing	98	99	97	97	98	93	98	99	99	87	99
Lottery tickets sold	27	19	20	33	29	12	27	0	0	80	48
Alcoholic beverages sold	56	12	0	31	73	85	37	54	51	76	81
Liquor	30	12	0	7	37	85	29	3	24	76	52
Beer	55	2	0	31	71	85	37	54	51	76	79
Wine	46	2	0	11	72	85	29	29	43	76	73

*By Nielsen Territories, end of February 1987.

Source: Nielsen HBA Services Survey

Film processing is the most popular "extra" offered by chain drug stores; virtually every drug chain in the country offers film developing.

The pharmacy computer is becoming a fixture in many areas; only in New England are computerized pharmacies in less than 50% of stores.

Nationwide, 71% of drug chains have computers, and they are most prevalent in the East Central, Metro Chicago and Southwest regions.

Only 5 percent of drug chains nationwide offer 24-hour shopping convenience. The Middle Atlantic and Central regions are the current leaders in this area.

State law and local custom dictate whether a drug chain sells alcoholic beverages. Fifty-six percent of drug chains in the U.S. sell alcoholic beverages, and "wet" chains are particularly strong in the Metro Chicago, Metro Los Angeles, Pacific and East Central regions.

Other merchandising strategies that are catching on in some areas are cosmeticians (73% of Chicago-area drug chains have them); lottery tickets (sold in 80% of Los Angeles-area chains); and pre-recorded video tapes (currently more popular in the Middle Atlantic and Southwest regions than elsewhere).

CHAPTER VII:

RETAILER ADVERTISING

Chart 19 Retailer Advertising Space Trend—All Drug Stores

Percent Of Ad Space Devoted To:						
Total Ad Space	100%	100%	100%	100%	100%	100%
Cosmetics	2	6	6	7	4	7
Pharmacy	1	1	*	*	2	*
HBA—personal care	15	12	14	9	16	12
HBA—health/remedial	9	6	9	7	9	8
Liquor	5	3	3	4	4	4
Food products	8	8	6	8	8	6
Institutional/Store image	15	11	15	15	14	18
Household supplies	6	4	4	3	4	4
Automotive	1	1	3	2	1	2
Home electronic	7	13	9	9	5	10
Soft goods	3	4	4	6	3	3
Misc general merchandise	28	31	27	30	30	25
	6 months ending June 1984	Dec. 1984	6 months ending June 1985	Dec. 1985	6 months ending June 1986	Dec. 1986

** indicates less than .5%*
24 markets—seven day coverage

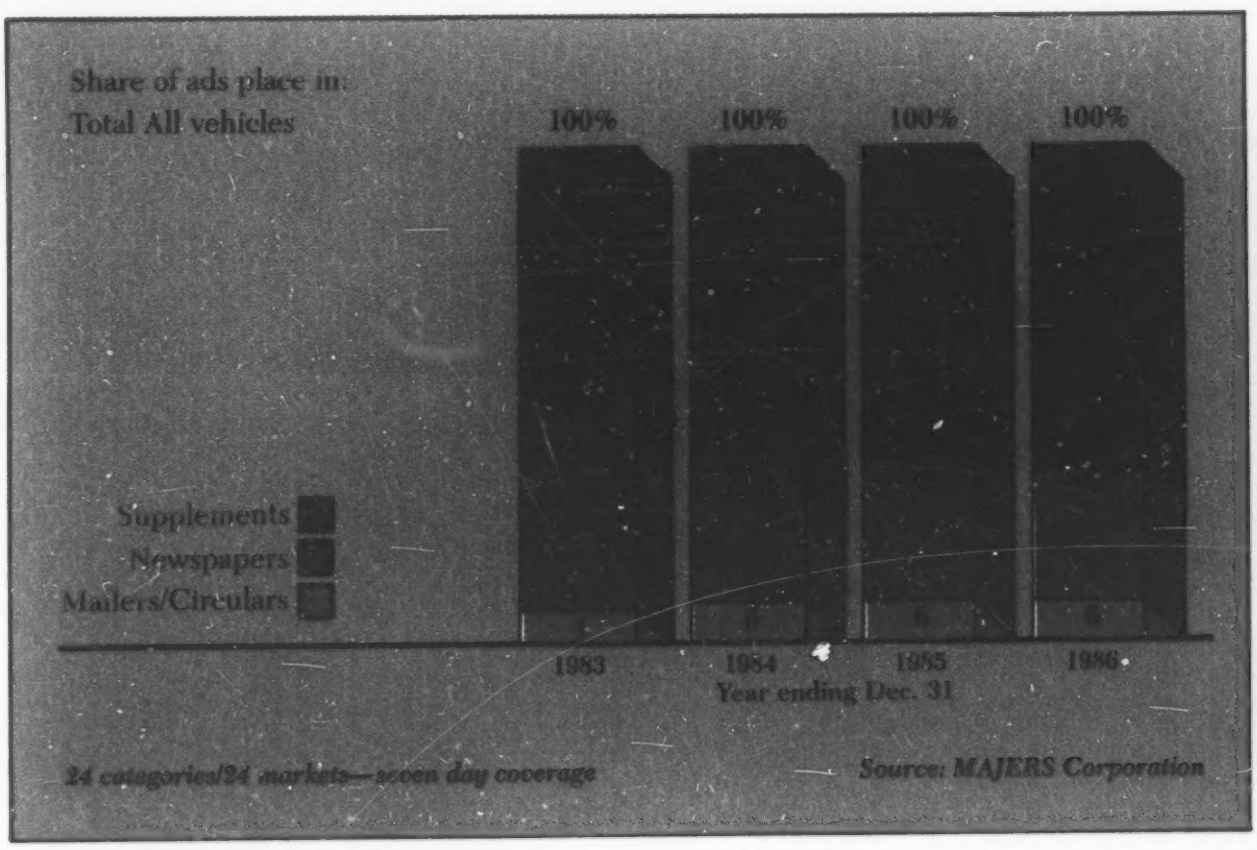
Source: MAJERS Corporation

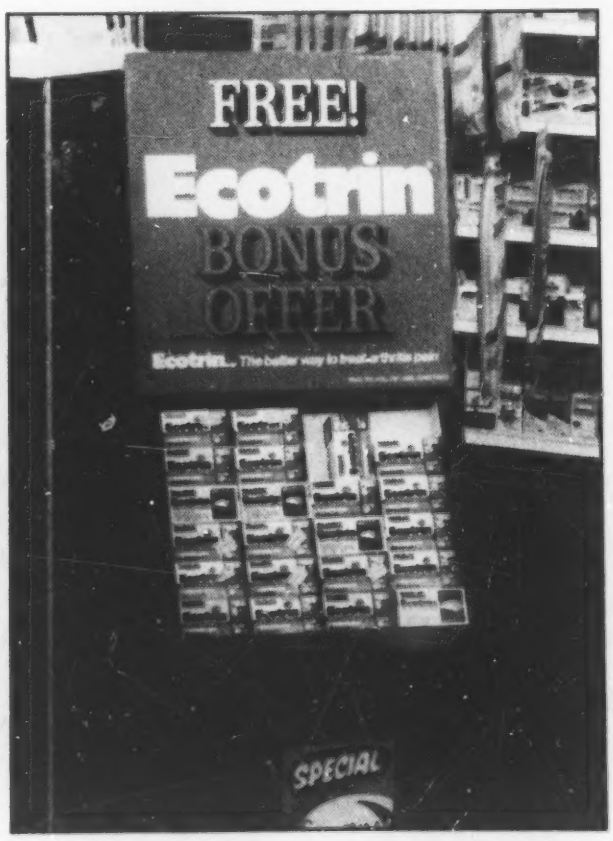
Drug stores devote more advertising space to institutional ads than to any particular product category. The exception is in the first half of the year when personal care products are heavily advertised.

Home electronics, as expected, are allocated a larger share of ad space during the second half of the year because of their suitability as holiday gifts and high margins.

From January to June, 5% of drug store advertising space is for home electronics; after June, their share climbs to 10%.

Chart 20 Share of Advertising Space By Medium—All Drug Stores





Supplements have traditionally been the most popular vehicle for drug store advertising, and last year they accounted for 65%, up from 62% in 1985.

This increase in supplement advertising has come at the expense of newspapers, which carried 29% of drug stores' advertising last year, down from 32% in 1985.

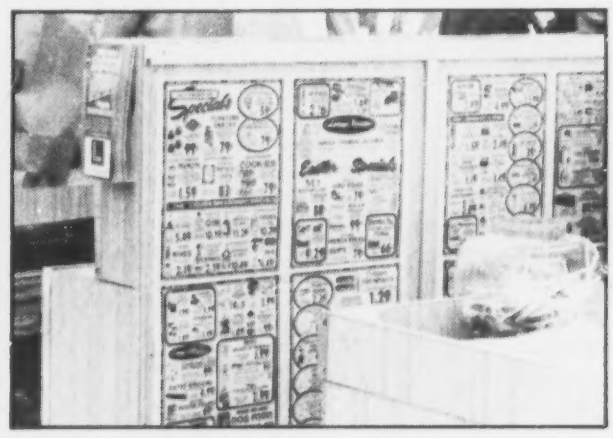
Mailers and circulars have maintained a 6% share of the drug store advertising space pie since 1984.

Chart 21 Average Number Of Ad Pages Per Company/Per Week—All Drug Stores

	Year ending Dec. 31		
	1984	1985	1986
% change vs. year ago	10%	19%	12%
Average number of peges	4.0	4.7	5.3
High week number of pages	8.9	9.9	9.7
Long week number of pages	2.1	3.0	3.7

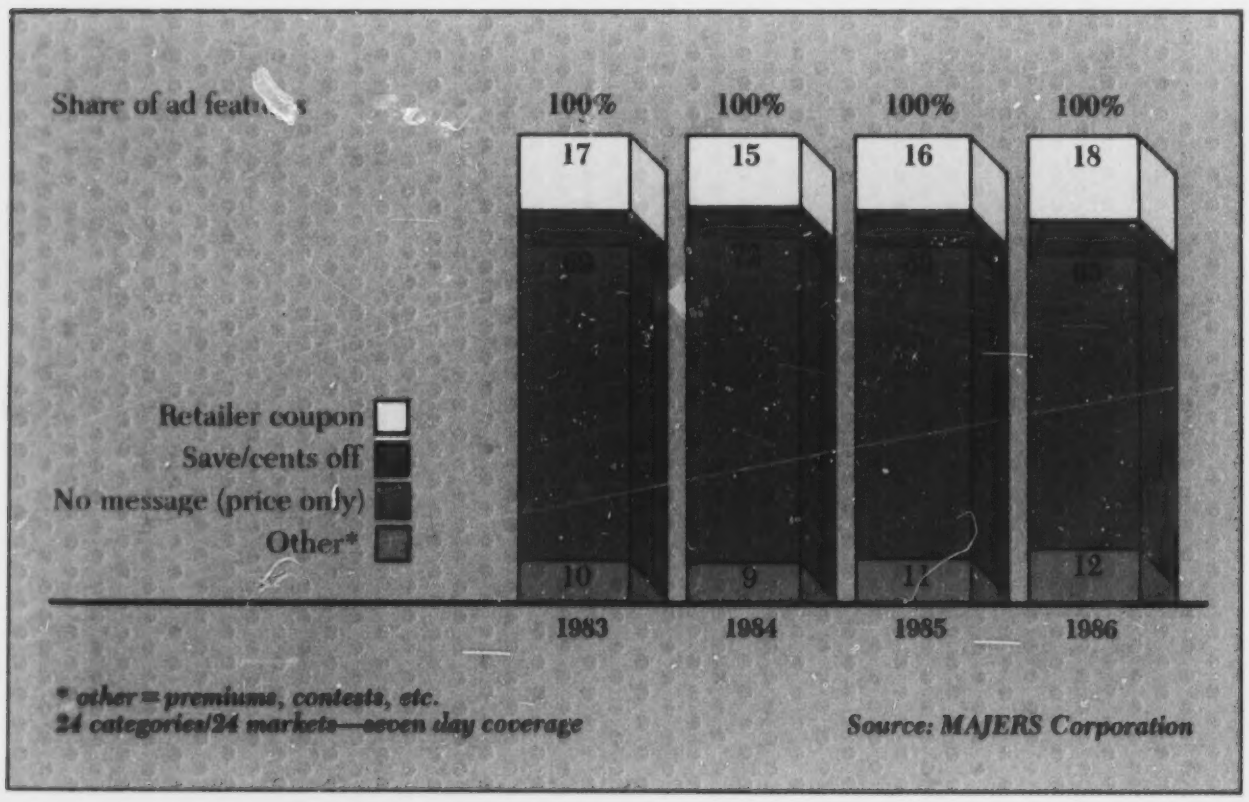
24 markets—seven day coverage

Source: MAJERS Corporation



Drug stores ran an average of 5.3 pages of advertising per week last year. This represents a 12% increase over the 1985 average of 4.7 pages per week; with a high of 9.7 pages during the end of the year holiday season and a low of 3.7 pages during 1986.

Chart 22 Trend In Feature Promotion Messages—All Drug Stores



Price is still the dominant theme in drug store advertising, although there was slightly less "price-only" advertising last year than in previous years.

Price-only ads accounted for 65% of drug store advertising in 1986, down from 69% in 1985.

Retailer coupons, savings/cents off messages, and other premiums such as contests all gained popularity as advertising messages for drug stores last year.

Eighteen percent of the ad features run last year involved retailer coupons.

Chart 23 Trend In Ad Feature Support For Selected Categories—All Drug Stores (% change vs. year ago)

	Year ending Dec. 31		
	1984	1985	1986
Total 28 selected categories	17%	8%	8%
Selected categories			
Razor blades	– 1	2	8
Tampons	4	–16	45
Sanitary napkins	30	12	– 5
Hand & body lotions	–33	– 0	– 2
Talc & dusting powders	25	–13	17
Cotton swabs	9	– 2	2
After shampoo products	18	11	1
Hair spray	10	7	14
Dentifrice	16	7	– 2
Mouthwash	15	– 6	9
Internal Analgesics	24	– 8	– 0
Deodorant	16	8	6
Shampoo	20	– 3	– 1
Disposable razors	38	24	17
Cough remedies	41	8	– 0
Cold remedies	27	16	7
Bar soap	10	1	1
Disposable diapers	8	20	28
Bathroom tissue	16	14	18

*28 categories/24 markets—seven day coverage

Source: MAJERS Corporation

Tampon advertising by drug stores took a dramatic upturn last year—increasing 45% after a 16% decline in 1985.

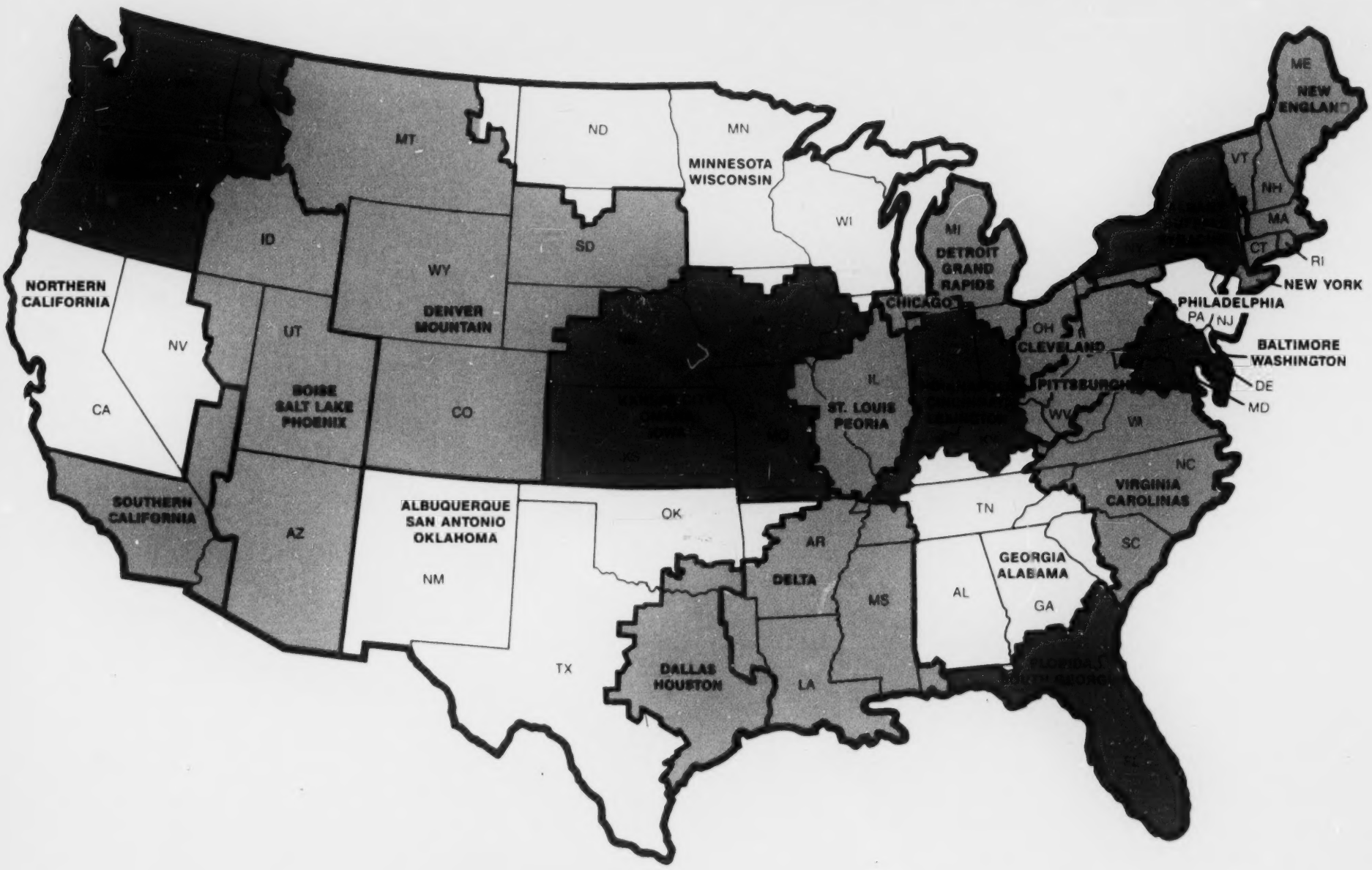
Drug stores also increased their advertising support for disposable diapers (+28%), bathroom tissue (+18%), disposable razors (+17%), talc and dusting powder (+17%), and hair spray (+14%).

Receiving less advertising support from drug retailers last year were sanitary napkins (–5%), hand and body lotions (–2%), and dentifrice (–2%).

Drug Store News

HBA NIELSEN HEALTH AND BEAUTY AID SERVICES

NIELSEN RETAIL MARKETING AREAS



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Trends:
Ethnic products cool, but some still sizzle—p. 25

Photo Feature:
Teens polled on hair care—p. 22

Inside Pharmacy:
Prisons: no-holds barred—p. IP15

DRUG STORE NEWS

Vol. 9/No. 21 **Serving chains, wholesalers and high-volume independents for 58 years.** Published by Lebhar-Friedman Inc.* October 26, 1987

Ziegler gets nod as NACDS president

NACDS president Bob Bolger (r) passes the mantle to Ron Ziegler (l) at press conference with chairman Jack Robinson.

BOCA RATON, Fla. — Former White House Press Secretary Ronald Ziegler was tapped by the board of directors of the National Association of Chain Drug Stores to replace retiring NACDS president Robert Bolger.

In announcing the appointment, NACDS board chairman Jack Robinson called Ziegler "an exceptional individual with an outstanding record of service in both the public and private sectors. We think his knowledge of both the business and governmental communities will allow him to be highly effective as the president of NACDS."

The first official word of Ziegler's selection came during a hastily-scheduled press conference at the Boca Raton Hotel and Club within hours of his approval by the association's board.

In response to questioning from the drug store industry trade press, Ziegler said that although his appointment does not formally take effect until January 1, he will be working closely with Bolger during the coming weeks to ensure a smooth transition.

Although Ziegler comes to NACDS with experience in trade association management--since 1980 he has served as president of the National Association of Truck Stop Operators—he is more widely remembered as the embattled press secretary to Richard Nixon during the Watergate era.

During the press conference, *Drug Store News* asked whether Ziegler's association with the Nixon White House during that controversial period may affect his ability to rep-

See **Ziegler,** *page 79*

Safeway Stores cuts back in wake of costly buyout bid

Pharmacies in Safeway supermarkets, by market

Former markets	Number of in-store pharmacies
Safeway division	
Dallas	74
Salt Lake City	30
El Paso	22
Current markets	
Houston	65
Denver	63
Eastern (Washington, D.C.-Richmond)	44
Oklahoma	36
Southern California	34
Northern California	15
Portland, Ore.	33
Seattle	24
Kansas City	16
Little Rock, Ark.	14
Phoenix	4
Total current market only	348
Grand total	474

Source: Safeway Inc.

This is the first installment of a two-part series. Additional coverage will appear in the next issue of Drug Store News.

By James Frederick

OAKLAND, Calif.—Like a huge army after a decisive battle, Safeway Stores is folding its tents on many fronts and pulling back toward more friendly confines in a massive, protracted retreat. It is certainly the story of the decade for the supermarket industry, and a big one for the drug store trade as well: the nation's largest food retailer, billions of dollars in debt, shrinking by hundreds of stores and abandoning some of its biggest markets in the wake of a costly takeover defense.

Eventually, the chain may shrink by as much as one-third or more. It has already left the key markets of Dallas/Fort Worth and Salt Lake City, and will soon be out of El Paso and, according to reliable local reports, Oklahoma City. Other markets will follow.

The implications of Safeway's re-

See **Safeway,** *page 79*

Marquee at New York's Sheraton Centre welcomes guests to REX Awards gala.

DrSN's *REX Awards gala* plays to packed audience

NEW YORK—*Drug Store News* presented its REX Awards for Excellence at a gala dinner held earlier this month before a jam-packed audience in the ballroom of the Sheraton Centre Hotel here.

More than 500 retailers, wholesalers and manufacturers turned out for the Third Annual REX Awards Dinner to learn the names of winners selected through an industry-wide voting pro-

See **REX,** *page 4*

Dworkins join Carl's 45-unit LBO

ROME, N.Y.—Sidney Dworkin and his son Marc will join Carls' management in the leveraged buyout of the 45-store chain from Revco, parties confirmed.

Also, Marc Dworkin will sit on Carls' board, once Salomon Bros. completes the sale announced in early September.

"They were invited [to participate in the buyout] because it was felt it would be good for Carls. They have a very good reputation in the drug industry," said Tod Bogan, Carls' senior vp-operations, and the buyout leader.

Marc Dworkin, who had served as Carls' president and Revco's executive vp, confirmed that he and his father will invest in the buyout, adding that his father might also sit on the board.

Parties have declined to reveal details of the LBO, which is still being structured and scheduled for year-end completion, and Dworkin said it isn't possible to say what share of the chain the Dworkins will own.

Sidney Dworkin, former Revco chairman, and Marc Dworkin resigned last month and severed connections with Revco. The chain's board, including directors from the majority investors in Revco's 1986 LBO, announced the appointment to chairman and ceo of Boake Sells, the former Dayton-Hudson president and coo.

'Budd' Dworkin returns to retailing with Jax purchase

CLEVELAND—Elliot "Budd" Dworkin, who left Revco as senior vp-marketing in 1984, has re-entered retailing with his purchase of the two-store Jax deep discount business from Fisher Foods.

Dworkin, through a compa-

See **'Budd',** *page 79*

LATE NEWS

- BESSEMER, Ala. — In a long-awaited move, Big B will enter the Atlanta market beginning early in 1988. The chain will open six to eight drug stores in the city next year, vp-operations Bobby Little said.
- PHOENIX, Ariz. — SupeRx Corp. has purchased three Walgreens drug stores in Alabama, boosting its store total to 12 units in that state. The chain, which was created through Gerald Wolken's acquisition of 49 SupeRx drug stores from Kroger Co., also operates 28 units in Arizona and 10 units in Georgia.
- OAKLAND, Calif. — Safeway Stores Inc. has agreed to sell its Oklahoma division to a new firm created by New York-based LBO specialists Clayton & Dubilier. The deal, terms of which were not disclosed, includes 106 supermarkets in Oklahoma, southern Kansas and Texas, three supply plants and one distribution center. The agreement is contingent upon a new labor contract.

NEWS IN BRIEF

Gallagher leaves Perry Auto Works

PONTIAC, Mich. — Jack Gallagher has resigned as president of Perry Drug Stores' Auto Works division to pursue other interests, ending a three-year association with the chain. Perry has named Peter Murray, former vp-corporate planning and development, to head the division, which operates 240 discount auto parts stores in eight Midwestern states.

Gallagher, 51, was general manager of Corvairs when Perry acquired that 47-store chain in 1984.

Murray, 46, joined Perry after working with Federated Department Stores and Dayton Hudson's Target Stores division.

Perry chairman Jack Robinson credited Gallagher for "a good job in integrating and consolidating all the auto parts stores we acquired in the last two years," and for successfully consolidating three auto parts warehouses into a single center.

Segneri quits Begley, was senior vp

RICHMOND, Ky. — Orlando F. Segneri, senior vp-retail operations at Begley Drugs, resigned Oct. 1 after six years with the chain.

Robert Begley, chairman, said the post won't be filled immediately.

A former Walgreen's district manager, Segneri was at one time responsible for all areas of Begley's drug store purchasing, merchandising, operations, marketing, and advertising when he took the senior vp post in 1981.

As the Begley company grew during the 1980s, the chain's drug merchandising and marketing duties were separated out. James Davenport oversaw those functions for a year and half, until July 1986, when he was replaced by Mitch Jacobs, vice president of merchandising and marketing.

"He was interested in pursuing personal goals," said a Begley spokesman, explaining his resignation.

Begley has been reorienting its drug business after a year in which earnings have been battered by write-offs on inventory and receivables.

The chain has launched new formats for its drug stores and home health care stores, as it tries to strengthen and focus an image as a community health care provider.

McNamara gets Alco Health prexy post

VALLEY FORGE, Pa. — Alco Health Services, the nation's fourth-largest drug wholesaler, has named chief operating officer John F. McNamara to the additional post of president.

McNamara joined Alco in 1981 as president of its Kauffman-Lattimer operation, then was named executive vp of Alco in 1984. He became coo two years later. He had been with McKesson since 1957, eventually rising to the presidency of Valu-Rite Pharmacies.

Donald Fox, ex-Perry prexy, gets Beauty Brands post

Donald Fox

SOUTHFIELD, Mich. — Donald Fox, former president of Perry Drug Stores, has been named president of Beauty Brands Group, based here.

The 54-year-old retail veteran will work with chairman Barry Fleischer running Beauty Brands' day-to-day operations.

Fox will also be heading up expansion and acquisition efforts.

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Vol. 9, No. 21 October 26, 1987

Dave Bush

Joe Decker

Mary Baker

Jim Kyle

Buyers plan, seek service at Associated/Affiliated Show

NEW YORK — Chain drug store buyers worked the corridors of the Sheraton Centre Hotel during the Associated/Affiliated Fall Buying Show here to plan their spring/summer '88 programs, iron out servicing problems one-on-one with vendors, and add last-minute items for Christmastime.

"It's of tremendous benefit to us," said Dave Bush, vp and general manager of Reasner Drugs in Indiana, who was looking for spring/summer sundries as well as Christmas fill-ins. "We need the input to add to our programs, and it gives the smaller guy the opportunity to work with larger vendors. If we do have problems, we can get them straightened out."

Joe Decker, president of five-store Richardson's Pharmacy Inc., based in Ann Arbor, Mich., liked a piano watch as a novelty under-$6 stocking stuffer, but was mainly planning for Easter, spring and summer. "We're looking for items we can sell on a seasonal basis," he said, explaining that his stores cultivate a high seasonal profile, using space some chains might fill with promotionals to be first on display with a broad variety of holiday/seasonal items.

Other items that caught buyers' attention included a tackle box-like cosmetics organizer retailing for under $10 from Caboodles of California, Barbie and GI Joe floor displays, a blister-packed disposable nail enamel from Loujené for 59 cents and a blunt-edge $1.29 Pumpkin Kutter, for children to carve with.

Mary Baker, cosmetics buyer for Indianapolis-based Hook Drug, was at the show, "doing what I always do: trying to see everybody here." Baker noted that the show is a good place to work out problems with vendors because "the people at the show are at a different level from those who call on you."

But she said she and some buyers she had talked with see a redundancy between the Associated/Affiliated show and the NACDS Marketplace Conference (held in June in Minneapolis). The same vendors are at both shows, she said, adding that, for her, the NACDS show is more productive.

Gary Lefferts, president of Austin Drugs, disagreed. "I feel NACDS is more of a conference and this is more a pure buying show," he said. "This show has continuing value."

Although vendors did not appear to be using the show to launch many major items, there were some new products on view, such as "Bigmouth," a portable garbage bag holder being test-marketed in the $6.95-$8.95 price range at Perry in Flint, Mich.; Lane Drug in Toledo, Ohio; and Fay's in Buffalo, N. Y.

Some 175 vendors exhibited at the show held Oct. 11-14, which drew about 200 buyers.

L.A. stores dig out from quake

Several aftershocks complicate damage assessment

By Pamela Krein
Reported by Margie Mewshaw

LOS ANGELES — Area drug stores are still assessing damage from the earthquake here this month which scared employees, ruined merchandise, and forced store closures.

Although the initial Oct. 1 earthquake—at 6.1 on the Richter Scale—caused most of the damage, area drug stores experienced further problems from the countless aftershocks that continued to shake the Los Angeles area days later. Most stores, however, said they avoided any personal injuries, since they were not open when the first quake hit at 7:42 a.m.

Ceiling tiles fell, cracks appeared on walls, and windows broke at Clark Drugs in El Monte. Store manager Ray Magro said the store was littered with broken liquor bottles and spilled merchandise, and the store had to close the entire day of the initial quake.

Another Clark Drugs in Temple City experienced extensive quake damage, and required help from other chain employees. Pat Russo, store manager of Clark's Covina store, said he made several trips to the Temple City site to help clean up the damage.

According to Russo, the liquor department was totalled, and overall there was "more (merchandise) on the floor than on the shelves." Approximately 100 ceiling tiles fell, and a construction crew worked overnight to shore up damage so the Temple City store could open the next day.

Best Buy Drugs in Pasadena also closed for a few hours after the first quake, where again damage was especially apparent in the liquor department.

Quake damage hampered drug store sales for days, as shown at Best Buy, Pasadena, Calif.

Store manager Preston Walrith said the initial quake destroyed about $3,000 worth of inventory at cost, while the largest aftershock ruined another $1,000.

Although he said it was hard to estimate the sales lost during the time the store had to close, Walrith said he did notice a minor sales increase, when customers came in anxious to fill scripts in case another quake hit. Over a week after the first tremor, Walrith said the store was still working to get "back in a mode of where we were before."

At Longs in La Habra, only minor quake damage resulted, enabling the store to keep its doors open during regular hours. According to manager Pete Opsteegh, customers have been "picking up first-aid kits . . . stocking up for the future until they forget about it."

Correction

In the Sept. 14 issue, *Drug Store News* erred in reporting that "Ansell has capitalized" on recent reports of condom failures by introducing "a thicker" LifeStyles condom. In fact, LifeStyles Extra Strength condoms have been in the research, testing and production stages for well over six months, long before the recent condom recalls. In addition, the product is not "a thicker" LifeStyles condom, but it is an extra strength condom.

TRENDS

Pro products, styling aids pace hair care growth

Chain drug store buyers report that professional hair care products, mass-market styling aids, and quality-priced salon-image shampoos are their fastest-growing product segments, according to a *Drug Store News* survey.

Leading professional hair care brands include Stiff Stuff, Aussie, TRESemme and All Set; hot mass market styling aid products include Studio Line, the Jheri Redding spritz, the Vidal Sassoon styling aids, the Clairol Condition styling aids, Condition, Suave, Flex and Alberto mousse, Dep and Dippity-Do gels; and the quality priced shampoo brands with either a salon heritage or image count Pantene, Vidal Sassoon, Jheri Redding and Jhirmack among their ranks.

Chain drug store hair care buyers also say that certain mid- and lower-priced mass market brands are also doing well, particularly Finesse, Flex, Head & Shoulders, Suave, Ivory, Neutrogena, Pert, Prell, Aqua Net, Halsa, Wella and Johnson & Johnson's baby shampoo.

Competitive Pricing

With dollar growth in the shampoo and conditioning segment in drug stores still coming primarily from high- and low-priced brands, several chain drug store hair care buyers are now speculating that it is possible that drug stores are not being competitive enough on their mid-priced shampoos and conditioners. Several buyers reported that their stores sell these brands for between $2.50 and $2.99, while a Wal-Mart or a K mart will have them for $1.99 or $2.19.

One buyer, for example, says his sales of Ivory are hampered by just such a problem. "It's very hard for me to match Kroger's price on that brand," he says. "I'm too high and I can't compete on price."

Begley Drug

At Begley Drug in Kentucky, hair care buyer Ralph Kinder reports that Salon Selectives, the new line from Helene Curtis, and TRESemme, the 20-year-old professional line that Alberto Culver is now putting into retail distribution, are both doing well.

Textra from LaMaur, he says, is starting slow but should gain momentum once consumer ads begin breaking.

"We ran Salon Selectives in an ad recently," Kinder says, "and it sold exceptionally well. But I have to admit that it was a very good buy for the consumer. We sold it for $1.50 and the manufacturer offered a $1.50 rebate so the consumer essentially got it for free.

"The true test will come when it's time to repurchase. We'll just have to wait and see how well it does then.

"TRESemme has been available as a salon brand for a long time, and it's doing fairly well for us, and this is before we're seeing any consumer ads."

Textra, says Kinder, has "exceptional packaging, but I think its sales potential will ultimately depend on how many people will want to admit to themselves that they have limp hair.

"We're preparing to break our first Textra ad soon, and I think sales will be good, but I can't guess how strong the brand can become."

Kinder also thinks that Salon Selectives may be handicapped by its niche positioning.

"I trust the Helene Curtis name and I think it's a quality product, but the package labeling may be confusing to consumers. Using alphabet labels to indicate which formula is needed for specific hair types may turn the consumer off. Shoppers don't like to spend a lot of time reading labels."

The Jose Eber line from Fabergé was on order, but not in the Begley stores at press time.

However, Kinder says he thinks the line "will do fine for us." The $6 average retail price point for the line didn't faze Kinder at all. "I'm looking to attract the specialized high price point shopper. I think there's a strong market for quality products that promise above-average performance.

"In my stores, I'm getting my best growth from my high price point hair care brands and from my low-end brands. The middle priced brands aren't growing at all for us, and that's because the consumer who can afford it is looking for the best products to put on their hair and skin."

Best Performers

Right now at Begley Drug, Kinder says the best performing brand in his hair care line is Pantene. "Pantene has done exceptionally well for me," he says, "But P & G's Beauty Care Division has just taken it over from the P & G Richardson Vicks division, and we'll have to see what happens now.

"I like the fact that Vicks kept the price points up. The brand was selling for between $3.29 and $3.79 at retail, and that's the positioning I want. It helps increase dollar volume in the category and it lets me make a profit on a category that comes close to being a commodity."

Segment Growth

Kinder says the mousse category has run out of steam. "People are not sampling all the different mousses that come out anymore," he says.

"The fringe brands are dying out, and people are basically buying just four or five brands."

In response, Kinder has cut back SKUs in the mousse segment and now gives space just to the four best-selling brands in that segment.

The space that's been taken from mousse is now going to gels, spritzes and other styling products. "I've given about two feet more to that segment," says Kinder, "and all of that space came from the mousses."

Kinder says the Studio Line of styling aids products from L'Oreal is performing particularly well in his stores, especially the latest line extension, the L'Oreal Studio Line Spritz, which Kinder says is selling "exceptionally well."

Also doing well is Stiff

Continued on page 13

Teens, willing to experiment with new styles, are a driving force behind hair care product introductions.

Hair care: retail dollar sales by category segment
(drug, food & mass merchandise stores)

	1986 $ sales (millions)	% change	1st half 1987 $ sales (millions)	% change
Shampoos	$1,226	1%	$ 633	3%
After shampoo/conditioners	683	2	339	2
Sprays	525	10	301	10
Color	434	9	247	6
Ethnic	285	(2)	125	(6)
Mousse	144	0	83	(13)
Men's preps	133	5	67	(3)
Home perms	128	7	64	(2)
Total hair care	$3,459	3%	$1,859	2%

With the exception of Consort, mass market retail sales of professional hair care products are not included in this chart.
Source: Nielsen Marketing Services

Hair care sales trends

	1st half 1987 $ sales	% change		
		Drug	Food	Mass Merchandisers
Shampoo	$173	0%	1%	11%
Color	130	3	16	6
After shampoo/ conditioners	121	(3)	3	8
Sprays	87	6	10	17
Ethnic	75	(9)	0	(4)
Perms	31	(8)	1	5
Mousse	28	(22)	(7)	(10)
Men's preps	25	(4)	(1)	(6)
Total	$671	(2%)	3%	8%

Source: Nielsen Marketing Services

Hair care TRENDS

Hair care, No. 2 H&BA category, has flat growth

Hair care is the second largest dollar volume category in the health and beauty aids market segment, but it is not a category that enjoys great growth.

According to A. C. Nielsen, the entire category was only up 3 percent in dollar sales in 1986, and for the first six months of 1987, it was only up 2 percent.

However, although the total category is flat, there are growth segments within hair care, as well as growth brands.

Profesional hair care brands, for instance, are showing dramatic growth in the mass retail market, and so are styling aids and hair coloring products.

This year, the most dramatic growth segment within hair care is the professional hair care category.

Using the most conservative estimates from the manufacturers and distributors of professional hair care products, the dollar sales of professional hair care brands like Stiff Stuff, Aussie, All Set and TRESemme were up 18 percent in 1986, and they are up a mimimum of 25 percent so far this year.

The traditional mass market hair styling products like the L'Oreal Studio Line gel, the Jheri Redding Spritz, Clairol Condition, Revlon's Flex and Helene Curtis's Suave are also showing strong growth.

Manufacturers and retailers are estimating that gels and other styling aids like spritzes are up more than 20 percent so far this year in dollar sales.

According to A. C. Nielsen, however, the mousse category, which really ignited the hair styling category three years ago, is down so far this year. Nielsen says total mousse sales were off by 13 percent for the first six months of 1987. Hair care buyers say that just the top three or four major brands are still showing growth in this category.

Nielsen also identifies two other growth segments in the hair care category. The hair coloring category, which enjoyed a 9 percent dollar volume growth rate in 1986, is up another 6 percent so far this year.

Hair sprays, which grew by 10 percent in 1986, are up 10 percent in dollar sales to date.

Shampoos and conditioners, however, which do about 57 percent of the total category's sales, are flat again this year. Nielsen says that for the first six months of 1987, shampoo sales were up just 3 percent and after-shampoo conditioning sales were up a slight 2 percent.

In the drug store industry, hair care buyers say they can still generate growth from the category, but the most dramatic growth is coming from the relatively new mass retail product segments like gels and spritzes, and from the professional hair care brands, which have been around for years, but which are now becoming both more fashionable and acceptable to consumers, and more accessible to mass market retailers.

Drug store share of hair care retail sales

	1986	1987
Shampoo	28.2%	27.3%
After shampoo/conditioners	37.6	35.8
Sprays	30.1	29.0
Color	54.5	52.9
Ethnic	61.9	60.0
Mousse	37.6	33.9
Men's hair preps	37.3	37.0

Source: Nielsen Marketing Services

Buyers who carry professional lines say their best selling brands this season are items like the Stiff Stuff styling aids, All Set hair sprays, TRESemme styling products, and the professional hair conditioners like the Aussie 3 Minute Miracle and Infusium 23 hair treatments and shampoos.

Also selling well are the salon style popular shampoos and conditioners like Pantene, Jheri Redding and Vidal Sassoon, and certain brands in men's preps like Consort and Vitalis.

Just beginning to sell well are buildup remover shampoos, also called citrifiers because they remove the residue or build-up that is left on the hair by the styling aids and fixatives that are so popular today.

At the mass level, Neutrogena and Vidal Sassoon shampoos and conditioners are doing well in this segment, and at the professional level so are such brands as the Australian Hair Citrifiers from Redmond.

Most chain drug hair care buyers say they are either adding or expanding sets for professional hair care products and they are also giving more facings to gels, spritzes, and hair sprays. See story on page 00.

Many buyers are also cross merchandising their professional hair care products in their basic shampoo and hair styling departments, in addition to maintaining a serviced professional hair care department.

More chains are also advertising professional hair care brands now, particularly on the West Coast where their mass distribution appears to be the strongest.

In the California market, Mike Edwards of Mercury Distributors/Traffic Creators, Chatsworth, Calif., reports that a recent Pay 'n Save full page ad that featured all professional hair care items generated orders totaling over $400,000.

"That was for just one ad," Edwards marvels.

Food chains are also getting into the act. Edwards also notes that Mercury's sales of professional hair care products to the Alberston's food chain in Boise, Idaho were up 447 percent for their last fiscal year. Mercury's total business to date is itself running 56 percent ahead of last year.

Some drug and food chains are also beginning to use professional hair care product distributors like Mercury as a source for other salon style products such as skin and nail care and treatment lines as well as hair thickening items like Foltene, Folicure and Thick Stuff.

The Freeman Cosmetics Company, for example, just recently signed an exclusive agreement with Mercury to distribute the Freeman line of Signature Salon hair and skin care products in the western part of the United States

But to return to hair care,

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Retailers size up hair care product sales, segment growth

Continued from page 11

Stuff, a professional salon styling aid product made by Modern Research Laboratories, and which is bought by Begley's professional hair care and cosmetics buyer Billie Carpenter.

"I've never seen an item take off as well as this one", says Carpenter. "We've had this item about a year now, and it's been great."

Professional Hair Care

Both Kinder and Carpenter say that professional style hair care products have been doing well in their stores, and that Begley Drug would like to do more merchandising of professional salon lines.

"We'd really like to expand this section," says Kinder, "because it gives me an extra niche to fill. It lets me be different from the discount chains like Wal-Mart and from the deep discount drugstores.

"I'd especially like to handle the top-selling salon brands like Redken, Paul Mitchell and Sebastian," says Kinder.

Right now Begley has a 4-foot professional hair care set. TRESemme hair spray, which is number one in salon sales, according to the manufacturer, is in this set, and so are products like Redmond's Australian 3 Minute Miracle, Infusium 23, DeMert's All Set, and Modern Research Lab's Stiff Stuff.

Kinder says Begley has had this set for several years and it has done "exceptionally well. We've done a new planogram," he says, "and we're adding more facings of the better sellers."

Begley doesn't advertise the section much, but Kinder says that "just having it in the stores helps us. It gives us a good image. We create the impression that we have good prices because we sell the brands for 20 percent or so less than the salons typically sell them for, and we still get good margins: 35 percent to 40 percent on the professional lines compared to 20 percent to 25 percent on the everyday mass market lines."

Carpenter says that Begley has also just changed the location of the set in the store, and now merchandises the professional lines right next to the regular shampoos.

"We think the set's going to get a lot more attention now," she says.

She also says Begley plans to advertise the department more. "We'll be buying more new items," she says," and we're going to start advertising the professional lines maybe every month instead of just once or twice a year."

Austin Drug

In the New York market, Gary Lefferts, president of Austin Drug, reports that none of the new hair care lines have made any blockbuster impression on the category.

Jose Eber and Textra hadn't reached the Austin stores yet, but Lefferts said Salon Selectives and TRESemme, which Austin carries in its professional set, were both doing okay.

Professional Hair Care

Lefferts says he'd like to carry more professional hair care products, but has a hard time getting the better selling salon lines.

"We've had a 12- to 20-foot professional hair care set for about two years now," Lefferts says, "and sales have been very good, but it's not easy for me as a retailer to get a consistent source of supply on some of these brands. I have TRESemme and Redmond," he says, "and I'd also like to be able to carry a brand like Nexxus every day, but it's just very difficult to get. Some of these manufacturers still prefer to sell exclusively to salons."

Austin's hair care buyer Marlene Isaacson also confirms that Austin's professional set "does very well for us.

"Professional hair has become what nail was a few years ago, a very strong growth category. Women today are just more conscious of their hair, and they don't mind spending extra dollars to get the look they want."

Isaacson also says that the professional brands "have been very profitable for us. The margins are much higher than the margins on the mass market brands."

Austin chooses to merchandise its professional department close to its traditional hair care section. In most stores, one side of an aisle is the professional set, and the other is the regular set.

Best sellers in Austin stores, says Isaacson, are Paul Mitchell, Stiff Stuff, Aussie's whole line, and Pantene.

H.E. Butt Food and Drug Stores

In Texas, H. E. Butt's cosmetic and beauty aids buyer Mary Nell Glitzer reports that overall hair care sales are "very good", and some of the new launches like Salon Selectives are generating "excellent" results.

Helene Curtis supported the Salon Selectives launch with a multi-million coupon drop in H. E. Butt's Texas markets. Glitzer said she took advantage of the coupon activity to run several ads on Salon Selectives and the response was superb.

"The launch got off to a very good start," she said, "and the movement has been holding steady, so people seem to like the line and they're repurchasing it."

At press time, Glitzer had just gotten the Textra line into her stores, but she said that possibly because LaMaur hadn't broken its Textra ads yet, sales were building slowly.

"Once the ads and the coupons break, I think sales will go up," Glitzer said, "but I don't think it'll be as strong as Salon Selectives."

TRESemme has been in the H. E. Butt hair care set for a while now, in their professional products section.

Fabergé's Jose Eber line was also just getting into the stores at press time, but Glitzer was limiting the distribution to just the high-volume "A" Butt stores.

"I think it'll do well," she says of the line. "They're going after the professional customer and their packaging is good. The advertising plans seem strong so I'm expecting good sales."

Glitzer also said she liked the $6 suggested retail price point, but had decided against carrying the one $12 SKU. "I don't think my customers will spend that much," she said.

Best Performers

Glitzer says that Pantene has been one of her best selling lines this year. "Ever since its repositioning last year," she says, "Pantene's sales have really taken off for us."

Continued on page 21

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TRENDS — Hair care

Hair care: new product launches

(Second half of 1987)

Brand Name	Manufacturer	Items	1987 Quarterly Launch Date
Wella	Wella Consumer Products Englewood, N.J.	So Fine Conditioning Mist So Fine Shampoo Mist 2 formulas; 8 SKUS	3rd Q
Propolis	Beehive Botanicals Hayward, Wis.	Shampoo Conditioner "natural nutritive ingredients" 4 SKUS	4th Q
Amitee	Amitee Cosmetics Fountain Valley, Calif.	Moisture Perfect Shampoo Conditioner "ultimate moisture regulation" 2 SKUS: normal to dry	3rd Q
Chris Evert	Chris Evert Cosmetic Distributors, Chatsworth, Calif. marketing for Seasons Inc.	Active Life Shampoo Conditioner	3rd Q
Neutrogena	Neutrogena Corp. Los Angeles	T/Sal Therapeutic Shampoo dual action formula protects against flaking	3rd Q
Dep For Styling	Dep Corp. Rancho Dominque, Calif.	Shampoo Conditioner Body & Control Gel New pack features all 3 SKUS	3rd Q
Alberto VO5	Alberto Culver Co. Chicago	Nutrient Liquid Shampoo 1 SKU	3rd Q
Freeman	Freeman Cosmetics Hollywood, Calif.	Botanical Shampoo Botanical Conditioner Hair therapy & humectant conditioning	3rd Q
Freeman	Freeman Cosmetics Hollywood, Calif.	Papaya Australian Formula Sculpting Spritz.Quick drying, firm holding hair spray 1 SKU	3rd Q
Fanci-Full	Roux Labs, Revlon New York, N.Y.	Color Splash Color & Styling Gel 8 shades that wash in and wash out instantly. Also styles the hair.	3rd Q
Jheri Redding Glossing Products	Jheri Redding Products Edison, N.J.	New 5-SKU line Formula contains "shine promoting agents." Line includes a shampoo, conditioner, gel, spritz & mist.	3rd Q
Goody Mistifier	Goody Products Kearny, N.J.	A hair brush with a sprayer in its handle. Spray in brush can be used to freshen hairstyles throughout the day. Also a new line of "anti-static" brushes: Ultra Lite Blow Styling Brush With Vents; Ultra Lite Professional Style Brush; Ultra Lite Rubber Cushioned Brush	3rd Q
Natural Wonder	Revlon New York, N.Y.	Streak-It Brush-On Instant Hair Color New line of bold streak or brush on colors.	3rd Q
The Formula	Jason Natural Products Culver City, Calif.	Thinning hair treatment for men & women. SRP $39.95. Kit contains 8 oz shampoo, 4 oz cleanser/conditioner & 90 vitamin tablets.	3rd Q
Sun In	Chattem, Inc. Chattanooga, Tenn.	Regular Hair Lightener Super Hair Lightener. New conditioning agents work either with the sun or with the heat from blow dryers.	2nd Q

Source: Marketing Intelligence Service, LTD., Naples, N.Y.

Professional hair care product launches

(Second half of 1987)

Brand Name	Manufacturer	Items	1987 Quarterly Launch Date
Sebastian	Sebastian International Woodland Hills, Calif.	Session Gel Quick drying styling aid for professional use	3rd Q
Glyde	Image Labs Los Angeles	Styling Gel adds shine & sheen to hair	3rd Q
Sebastian	Sebastian International Woodland Hills, Calif.	Systema Hair Care line: shampoo & fixative that do double duty. Shampoo cleanses & moisturizes. Fixative styles & texturizes. Also a perm and hair treatment. Plus a Systema color line: Colore Gel Hair Tint Colore Oxyde Liquid Peroxide Colore Oxyde Gel Peroxide	3rd Q
Deep Freez	Image Laboratories Los Angeles	Ultra Fine Hair Spray with Extra-Firm holding power. For the professional market	3rd Q
Vital Care Professional Super Spritz	Vital Care of North America Inc. Los Angeles	Lacquer-free, combable product for fine, thin hair. Gives body & hold.	3rd Q
All Set Aero Spritz	DeMert & Dougherty Oak Brook, Ill.	A highly concentrated fixative for scrunching, spiking, lifting hair & adding volume.	3rd Q

Source: Marketing Intelligence Service, LTD.. Naples, N.Y.

Hair care

TRENDS

Pro products, styling aids shape hair care growth

Continued from page 13

L'Oreal's Studio Line so far has juat been "fair" for H. E. Butt, but Glitzer says Stiff Stuff, although it is fairly new to her stores, has been selling very well.

Pazazz, a temporary color highlighter as well as a styling aid, has been doing well, but Colorific and Roux Fanciful have been dropped from the everyday planogram.

Professional Hair Care

"In our stores," says Glitzer, "we're selling more and more styling aids and professional hair care products."

Glitzer says Butt has "tripled" the space for its professional hair care section in the last year.

"All the brands in the department are selling so well for us that it's hard to tell you what the best ones are," she says. "The Aussie brands, the Infusium, the Demert All Set sprays, TRESemme, Stiff Stuff, they're all good movers."

Alberto Culver may be taking TRESemme into retail distribution, but Glitzer says she plans to continue at least for the foreseeable future to merchandise the line in her professional hair planogram.

Professional hair care brands currently available for mass retail distribution

Manufacturer	Product Line
Alberto Culver Professional Division	TRESemme
Alberto Culver Professional Division	Consort
DeMert & Dougherty	All Set
Duart Industries	Infusium 23
Freeman Cosmetics	Freeman Signature Salon Line
Gelle International	Merci Gelle
Modern Laboratories Inc.	Stiff Stuff
Pantresse	Reinforced & Ultra Control
Redmond Products	Australian & Aussie
Vital Care of North America Ltd.	Vital Care

Source: Beauty Brokers Inc., Dallas/Ft. Worth, Texas & Mercury Distributors, Chatsworth, Calif.

"That's where my shoppers expect to find it," she says. "I'm afraid if I move it into the general market section before Culver starts advertising it to the consumers, my regular shoppers won't know where to find it and I'll lose sales. The person who just buys mass market shampoos and conditioners may not know what TRESemme is without advertising."

At Perry Drug in Detroit, vice president for merchandising Steve Lund says that the newest launches—Salon Selectives, TRESemme and Jose Eber—are just coming into the Perry system, and so it's too soon to tell how well they'll sell.

TRESemme and Infusium, have also both been selling well as part of Perry's professional hair care set. Redmond's Aussie and Australian lines have also been selling well, with the Australian 3 Minute Miracle selling the best.

Stiff Stuff had just gotten into the Perry stores, but Lund was anticipating that "it should be good for us."

Steve Lund says his overall hair care sales have been flat, but within the category, the growth areas have been styling aids and professional hair care products.

Studio Line has been good for Perry and so has Pantene. Vidal Sassoon's new advanced formula and the L'Envie line from S. C. Johnson, however, have just been "fair", and temporary coloring products like Pazazz, Colorific and L'Oreal's hair cosmetic, Zazu have not performed well in the Perry planograms.

Professional hair care product sales in mass retail stores
(drug, food & mass merchandise stores)

	1986 $ sales (millions)	% change	1st half 1987 $ sales (millions)	% change
Professional hair care products	$400	18%	$250	25%

Source: Manufacturers and professional hair care distributors

Select professional hair care product distributors

Company	Location
Beauty Brokers Inc.	Dallas/Ft. Worth, Texas.
Gobi-Primak	East Brunswick, N.J.
Key Distributors	Los Angeles, Calif.
Richard B & B Supply	Royal Oak, Mich.
Traffic Creators/Mercury Distributors	Chatsworth, Calif.

Although there are many companies who do distribute professional hair care products, those listed here have exclusive geographic licensing arrangements with a variety of professional manufacturers.
Source: *Drug Store News* research

Hair care, second-biggest H&BA area, shows flat growth

Continued from page 13

the big story right now, buyers say, is that it has become a "fashion" category today. Buyers say that women are experimenting more with such styling aids as gels and fixatives, and they are treating their hair with more color.

According to manufacturer-sponsored consumer research, about one out of every five women currently uses three or more styling aids regularly.

According to professional hair care distributors like New Jersey-based Gobi-Primak, California-based Mercury/Traffic Creators and Texas-based Beauty Brokers, Inc., the professional hair care category has now become a bigger dollar volume segment than such segments as baby oils, baby creams, foot deodorants, adult incontinence pads, and 26 other " more traditional" drug store categories.

In fact, Stu Dolleck at Gobi-Primak in East Brunswick, N. J., estimates that professional hair care products now generate approximately $400 million in sales at the retail level.

Some brands within professional hair care are showing even stronger growth than the segment itelf. According to one professional hair care distributor, dollar sales of Alberto Culver's TRESemme professional line were up 27 percent in 1986 and they're up 29 percent in 1987 to date.

Retailers and distributors also like to rave about the above-average margins still possible with professional hair care products. Even though most retail chains discount their professional brands anywhere from 20 percent to 40 percent off the average salon retail, buyers say their everyday margins on professional hair care range from 30 percent to 45 percent.

The average hair care margin is about 28 percent, and on the price value shampoos and conditioners, it is generally less than 20 percent. Market research also shows that 62 percent of all sales in hair care are for the value priced brands.

According to an analysis done by Beauty Brokers, Inc., one 200 store mass merchandise chain cleared over $390,000 in profits last year from sales of the top 22 SKUs in its 4-foot professional hair care sets, which generated 60 percent of the total product movement. Those 22 skus included TRESemme, Redmond's Aussie, Modern Research's Stiff Stuff, Infusium 23, and DeMert's All Set.

BBI also says that last February, one warehouse for a major chain, with close to 100 stores, was shipping an average of 40 pieces of four TRESemme SKUs every 12 days to each store. Since then, says BBI, TRESemme's movement in that chain and others has been increasing "daily."

BBI and other distributors also report that the daily movements of Stiff Stuff, Redmond's Aussie line, Demert's All Set and Infusium 23 are all increasing rapidly.

Another smaller 45 unit chain, says BBI, moved over 4500 pieces of the 8-ounce size Stiff Stuff in a quarter. For that same time period, that chain also shipped over 3,500 pieces of the 8-ounce Aussie Sprunch Spray.

BBI also says one "progressive" drug chain generated $4 million in retail sales last year from the professional hair care lines carried in their 100 stores.

Jim Kyle, who buys hair care brands for Tom Thumb/ Page Food & Drug stores in Dallas says that professional products generally average between 14 and 15 turns a year in his stores. Sources for conventional or traditional drug store chains say their stores average about 10 to ll turns a year for professional hair care products.

In terms of overall performance within hair care, BBI points out that just in the styling aids category, for example, professional hair care products generate 17.5 percent of all sales, but contribute 28.2 percent to gross profits.

In the shampoo and conditioner category, professional hair care products generate 18 percent of total sales, but account for 26.5 percent of profits.

BBI's Lynne Cerveny also points out that many of the chains that BBI surveys only have professional hair care products in limited distribution, generally just in the higher volume stores.

The percentages contributed by professional hair care products, she points out, will be even greater, when all the brands are in full distribution at the drug, food, and mass merchandise store level.

Beauty salon sales predicted to hit $21B

Beauty salon sales are expected to increase 6.5 percent to $21.2 billion in 1987, according to an industry survey conducted by Audits & Surveys for "American Salon".

The growth rate, however, is substantially below the 13.3 percent increase registered in 1986, and the 9.4 percent gain in 1985.

Beauty salon retail sales of professional hair care products is the fastest growing segment in the salon industry, Audits & Surveys says.

Retail sales of professional hair and nail care products in salons are expected to increase 10 percent this year to $1.3 billion.

Sales of professional products in salons increased 11.3 percent in 1986.

In the salon industry, sales from women's services (cuts, manicures, and the like) are expected to increase 6 percent to $17.2 billion in 1987, while sales from men's services are expected to increase 8 percent to $2.7 billion.

Audits & Surveys says manicuring will be the fastest growing service segment this year, up a projected 31 percent to $545 million for women, and up 20 percent to $60 million for men.

Slight declines are projected for women's skin care, which surged 165 percent to $162 million in 1986, and for men's perming, where volume is projected at $500 million for 1987.

Robert Rhoades, a vice president at Audits & Surveys, says there is still explosive growth in hair coloring, which today represents about 25 percent of total salon sales.

"This trend has been spurred by the maturing of the baby boom generation," he said, "and by the development of new types of temporary coloring for special effects."

Rhoades also said that in 1987, the total number of services performed in salons will outpace the growth in dollar volume.

While approximately 124 million services will be performed, he said, the average customer ticket will drop slightly to $13 for women and $14 for men.

The slower rate of growth in dollar volume, Rhoades said, is the result of lower inflation and stronger competition among the increasing number of beauty salon shops.

Ethnic TRENDS

Ethnic category cool, but some products still sizzle

While drug chain buyers are reporting that their overall sales are either flat or down in the ethnic products category, there are some segments that they are classifying as "hot."

Hair styling and conditioning products, for example, are outperforming the ethnic category as a whole just as they are doing in the general market hair care category.

Hair coloring products and products that add shine and shimmer to the hair are also still doing extremely well, say buyers, and so are such categories as ethnic cosmetics, skin care products with cocoa butter, toiletries and cosmetics made with "natural" ingredients, ethnic hosiery, and even ethnic greeting cards.

Among the chains that have expanded space for ethnic cosmetic lines like Posner, Zuri and Ultra Sheen are the following: Walgreens, Rite Aid, Phar-Mor, Eckerd, Pay Less, and Thrifty.

Chains that are adding new ethnic cosmetic lines to their planograms include Woolworth's Rx Place, Peoples, Rite Aid, Pic 'n Save, and Standard Drug of Virginia.

Some chains like Walgreen's, Peoples, and SupeRx are trying to court Black and Hispanic shoppers by tailoring their product mix in ethnic neighborhood stores to the needs of that marketplace.

Frequently, that means adding such lines as ethnic hosiery and ethnic greeting cards to the product mix.

Buyers say that such lines make Black and Hispanic customers feel "wanted" by the stores in their neighborhood. Buyers also say that there is a need for such things as shaving items, soaps, skin creams, color cosmetics, and hosiery that are designed to meet the specific needs of Black and Hispanic shoppers.

"Ethnic cosmetics provide a broader range of shades for Black skin," said one buyer for a southwestern drug chain. "Ethnic hosiery also has a broader range of shades as well as a wider variety of sizes and shapes for Black women."

A number of chains have also begun to add hair and skin care products with "all natural" ingredients to their product mix in ethnic stores. Walgreen's started the trend a couple of years ago by giving away free samples of the All Ways Natural hair and skin care products.

Today SupeRx, Thrifty

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Growth in ethnic* cosmetic sales

Distribution channel	Retail Dollar Sales (millions) 1987 Proj.	1986 Est.	% change
Department stores	$125.0	$108.0	(14%)
Drug stores	75.0	108.0	44
Variety/discount stores	37.5	48.5	29
Salons/beauty & barber supply shops	12.5	13.5	8
Total sales	250.0	270.0	8

*Cosmetics that are specifically manufactured for and marketed to black consumers. Does not include sales of the darker shades in general market cosmetic lines to black shoppers.

Source: Nielsen Marketing Services

Answers to consumers' questions on ethnic hair care products

All Ways Natural Industries, Inc. offers the following information to help store personnel answer consumer questions on ethnic hair care.

1. What kind of shampoo should a Black consumer use on dry or brittle hair?

Your Black customers should use shampoos specifically designed for textured hair. They should avoid all-purpose shampoos which tend to strip textured hair of its natural oils.

2. What's the difference between an instant conditioner and a deep-penetrating conditioner?

An instant conditioner temporarily changes the texture of hair by coating the hair shaft. Your customers should use such conditioners after every washing and they should keep it in their hair for several minutes before rinsing out. Deep penetrating conditioners penetrate the hair shaft to rebuild lost elasticity. They also assist in the replacement of lost moisture. Deep penetrating conditioners are particularly excellent for hair that has been chemically processed and heat styled.

3. Why is hair for Black people considered more "delicate" than hair for Caucasians, and why does it require special treatment?

Because Black hair has a natural curled structure, the scalp's natural oils have difficulty spreading throughout the hair to protect and moisturize. Therefore hair for Black people has a tendency to be dry and to be more susceptible to breakage.

Relaxing and heat styling also add unwanted pressure to the hair. Ethnic hair and scalp treatments, therefore, provide the essential treatments that textured hair requires.

4. What does chemical processing like relaxing and color treating do to hair?

It can significantly weaken hair, plus it can also deplete the hair, as well as the scalp, of natural oils.

5. What can be done to reduce damage from chemical processing?

Your customers should always read the directions on every package, and follow them carefully. Black consumers should also condition their hair on a regular basis. And they should use hair care products without harmful chemicals. Products that are naturally formulated with herbs and oils are specifically designed to replenish textured hair.

6. What's the best hair and scalp treatment for Black hair?

Hair and scalp treatments that can be used daily, between washings, to provide moisture and to condition the hair while adding sheen. Recommend formulas without mineral oils because they can clog pores.

Many manufacturers today have light as well as regular formulas for their treatment products.

7. Is it really necessary for a Black consumer to use a hair protectant when they blow dry or heat style their hair?

Yes. Blacks should always use some type of lotion or moisturizer before applying heat to their hair to avoid damage. The best products to recommend are those specifically designed for use with heat appliances. Two examples are Pro Line's Soft & Beautiful Blow Dry Conditioner and the All Ways Natural Instant Conditioning Treatment.

The following list of consumer concerns was tallied by P. Hunter Associates Marketing Research.

1. *Dry scalp*--Black consumers want products that condition the hair and scalp, but are also good for styling and managability.
2. *Dandruff*—Black consumers desire shampoos and conditioners that will control this problem, without drying the hair out in the process.
3. *Hair Breakage*—Black consumers want products that will help hair grow, even when it has been curled or relaxed.
4. *Price* is a consideration with Black consumers planning H&BA purchases, but it is not a key decision element. Most important to Black consumers is: Does the product work?

Merchandising challenge posed by slow ethnic sales

Buyers say they are hard-pressed to create profitable merchandising programs for the ethnic products category due to "the lack of something new and exciting to spark sales" in the hair care segment, they report.

They cited changing styles, with the curl look having peaked, as leading to sales lags.

Nevertheless, particular product categories continue to show promise, *Drug Store News* has learned.

These hot items include:

- maintenance and styling hair products,
- conditioners,
- gels,
- pomades, and
- products that add shine and shimmer to the hair.

In cosmetics, the growth areas are:

- face make-ups, particularly the liquid and the translucent make-ups, and
- brighter shades of color cosmetics, especially in nail and lip.

Share of ethnic cosmetic sales by category segment

Segment	1987 Projected sales (millions)	1987 Share	1988 Estimated sales (millions)	1988 % change	1988 Share
Lip color	$ 62.5	25%	$ 67.5	7%	25%
Nail enamel	47.5	19	40.5	(16)	15
Pressed & loose powder	45.0	18	54.0	20	20
Liquid makeup	45.0	18	54.0	20	20
Powder blush	25.0	10	27.0	8	10
Eye liners	12.5	5	13.5	8	5
Eye shadows	12.5	5	13.5	8	5
Total	$250.0	100%	$270.0	8%	100%

Source: Posner Laboratories, South Plainfield, N.J.

This year, buyers are not talking about expanding the ethnic product category much or of adding it to many new stores. However, they still report that ethnic product sales are strong "in stores within ethnic neighborhoods."

Many buyers say that in ethnic neighborhood stores, ethnic health and beauty aid sales are a "big business" and one that is still doing "very well" for chain drug stores.

At Perry Drug in Detroit, vp-merchandising Steve Lund hopes for something to happen soon that will "breathe life into the ethnic category."

Lund says that there haven't been any new product launches recently that have stirred up the category, and he adds that although sales of the Care Free Curl line are still good, "everything else is kind of static."

Still Lund says that Perry stores do relatively well with the ethnic products category. Lund points out that Detroit, Perry's home town, is the second largest ethnic market in the country.

Lund says that Perry is seeing some growth in ethnic, but it's primarily because Perry is taking a stronger position in the category.

About half of all Perry stores now have ethnic departments, and Lund says the chain is advertising the category on the radio more, giving ethnic products monthly in-store off-shelf promotional display space.

Lund is also trying to build up his sales of ethnic cosmetics, and while he says the Posner and Ultra Sheen lines are doing all right in his stores, he wishes that ethnic cosmetic manufacturers would do more to provide the mass retailer with "a full well rounded cosmetic line that would be the equivalent of Fashion Flair or Flori Roberts in department stores."

He says his strongest sales in cosmetics now are in lip and nail, but that the general merchandise color lines like L'Oreal and Revlon also sell well in his ethnic stores.

"I'd love to expand into a six- or eight-foot ethnic cosmetics section if someone could just give me a good, strong line that could fill up all that space," he says.

At Begley Drug in Kentucky, Billie Carpenter, the ethnic hair care buyer, re-

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TRENDS | Ethnic

Ethnic category cool, but some products still sizzle

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Drug, Pathmark, Family Dollar Stores, Duane Reade, and Woolworth have all carried some of the All Ways Natural brands in select stores, and most of these chains frequently let sales reps come in and give away free samples of the All Ways Natural products.

Brian Marks, vp-marketing for All Ways Natural, says that individual stores report sales increases of between 25 percent and 45 percent on average after a sampling program.

According to manufacturers whose ethnic skin and cosmetic lines are doing well in upscale department stores like Bloomingdale's and A & S, there is a "tremendous need" for ethnic skin care and ethnic cosmetics because "Black skin is especially sensitive to the environment."

"Black skin needs gentle but effective products because it is so sensitive," says Naomi Sims, a model and author of beauty and fashion books who has her own line of ethnic treatment and cosmetic products.

Terry Hagertu, vp and merchandise manager for cosmetics at Saks department stores in New York says that ethnic cosmetics and skin treatment lines are selling very well at Saks.

"Foundations for dark women have been a major

Continued on page 28

Share of ethnic cosmetic sales by retail segment

Retail Segment	Share of Ethnic Cosmetic Sales 1987 Proj	1988 Est.
Department stores	50%	40%
Drug stores	30	40
Variety/discount stores	15	15
Salons/beauty & barber supply shops	5	5

Source: Posner Laboratories, South Plainfield, N.J.

Growth in ethnic liquid makeup unit sales

Year	Unit Sales (millions)	% change
1984	100	—
1985	130	30%
1986	187	44
1987 Est.	236	26
1988 Proj.	262	11

Source: Posner Laboratories, South Plainfield, N.J.

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Merchants challenged by slow sales

Continued from page 25

ports that sales in her ethnic sections are not growing as fast as they once were.

"Consumers," she says, "seem to be getting bored with the curl look," and nothing very exciting has come along to replace it.

"In fact, so far this year, there has really been nothing new that's come out that's done well."

Best Performers

Carpenter says TCB's Lite Gel has performed well for Begley this year, but TCB Lite, she says, "is new to Begley stores, but not new to the category this year.

"Elastatare has done well for us. It's a hair straightener, but that's also over a year old. Palmer's No Blade Shave is doing well, but that's also been out about a year. There's nothing very dramatic about the new entries in this segment this year."

Carpenter says that Begley has begun advertising the ethnic category about once a month, and that strategy has helped. "We can see the ads are bringing more customers in," she says.

Begley has also been doing more brand family advertising. "In one recent ad," she said, "we featured any two Curl Free products for $5. We did something similar with TCB because they also have a full line."

Carpenter says that Begley has benefitted from the family ad approach in several ways. "We're letting the customer know that we're a presence in the category," she says, "and we're encouraging multiple sales, which helps us increase our overall dollar volume per store."

Begley is also planning to support regular schools for their cosmeticians so they can learn more about the various ethnic products in their stores.

"We use a distributor for our ethnic lines, and they would set up the schools for

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TRENDS | Ethnic

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void," she says.

Many ethnic distributors and ethnic buyers say they agree with Hagerty who points out that mass market cosmetics can turn "chalky" on Black skin. Hagerty says the "big" market for retailers with ethnic lines will be in the "color choices and color correctors."

Face make-ups 'fastest'

At Posner Labs in South Plainfield, N. J., their marketing department says that in mass market stores, the face make-ups are showing the fastest growth.

"The general market companies are now doing pale shades for the face," says a Posner spokeswomam.

"But the Black market is usually ahead of the mass market by some 18 months, and the women in this marketplace are going with the bright shades."

Manufacturers like Posner and most ethnic buyers and distributors also report that the liquid make-ups are selling the strongest this season.

Translucent make-ups are particularly strong in the ethnic category, while pressed powders are also outperforming the category as a whole.

One buyer said she felt this was because many Black women today are going for "a more completed look. Liquid make-up," she said, "can smooth out the complexion and correct irregularities as well as act as a base to build a look on."

Growth in ethnic moisturizing lip color unit sales

Year	Unit Sales (millions)	% change
1985	100	—
1986	110	10%
1987 Est.	120	9
1988 Proj.	125	4

Source: Posner Laboratories, South Plainfield, N.J.

Growth in ethnic pressed powder unit sales

Year	Unit Sales (millions)	% change
1984	100	—
1985	119	19%
1986	137	15
1987 Est.	170	24
1988 Proj.	190	12

Source: Posner Laboratories, South Plainfield, N.J.

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Merchants challenged by slow sales

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us," said Carpenter. "But we'd set aside a day or two and the distributor would arrange for a manufacturer to come in to educate our cosmeticians on their products."

In certain stores in select neighborhoods, the Austin Drug chain in the New York market goes to great lengths to make its ethnic set look "beautiful" for its shoppers.

Buyer Marlene Isaacson says she carries a full line of shaving creams and hair care products as well as the Flori Roberts department store line of ethnic cosmetics.

"We're doing well with the Flori Roberts line," Isaacson says. "We've had it now for several years in our Lawrence, N. Y., store, and sales are increasing."

Isaacson says Austin put the Flori Roberts line into its Lawrence store because customers in that area "asked for it. We had a call for it and so we put it in," she says, "and sales have been beautiful."

Austin also carries the Flori Roberts ethnic skin treatment line. It is not merchandised in Austin's ethnic department, however, but behind the counter next to other department store skin care brands like Cosmair's Lancome.

"It's done very well for us," says Isaacson, "Its sales are comparable to our sales for Ultima II or Estee Lauder."

Austin is one of the few drug chains in the nation to carry an extensive selection of department store lines such as Lauder and Lancome.

Isaacson says that in time, Austin may expand the Flori Roberts line "to other select stores if we have enough customers who ask for it."

Austin also trains its cosmetic sales clerks to really know the differences in the products they sell. The chain sponsors seminars and engages in extensive on-the-job training.

"I think it's important for our cosmetic clerks to know the products, so they can give the best assistance to our customers," says Isaacson.

INSIDE PHARMACY

Comparison between information pharmacist would like to receive and what they are actually receiving

	Would like to receive	Currently receiving
Warnings on possible drug interactions	85%	27%
Instructions for advising patients on how to use the products	85	59
Warnings about possible adverse reactions	88	40
Information about how this product is unique	76	57
Insight into what the manufacturer is telling physicians about this product	70	51
Information about why the cost of the product is justified	62	13
A listing of the product's competitive disadvantages	54	10
A listing of the product's competitive advantages	58	68
If a new product, how well it did in clinical testing	27	30
All other mentions	4	—
Don't know/no answer	2	9

Note: Percentages do not add to 100% due to multiple responses
Source: Lebhar-Friedman Research

Steady info flow on drugs

Pharmacists who want more frequent visits from manufactuers' reps are getting satisfaction, but the desired number visits to chains is still below that of independents.

According to *Drug Store News'* 1987 **Rx Detailing Study**, manufacturers' reps are apparently listening to pharmacists who request more frequent visits to their store. The study of over 600 pharmacists nationwide showed that 59 percent of the pharmacists surveryed, in both chain and independent stores, said they saw a detail person once a month or more this year, compared to 55 percent who reported the same frequency last year. The report further uncovered that virtually all the pharmacists (98 percent) see a detail person at least once a year.

While the upswing in store visits satisfies the needs of most independents, it still doesn't meet the chain pharmacists' number of desired visits—consistent with last year's results,

Less than half (45 percent) of the independents answering the survey said that they would like to see a detail person "once a month or more," while 60 percent of the chain pharmacists desired a monthly or more frequent visit.

While the majority of pharmacists (56 percent) said they were satisfied with the frequency of visits, they were nearly split on the issue of more or less visits. The survey showed that 22 percent of pharmacists desired more frequent visits, while 20 percent said that they wanted to see a detail person less often.

More than half of the respondents said the major reason they would like more visits was to be briefed by manufactuers' reps on new products and to be updated on existing ones.

"We need to be aware of new drugs coming out on the market and what the drug reps are detailing to the physicians," commented one chain pharmacist.

"I like to be kept informed on new drugs, new delivery systems, new dosage forms, new strengths available, etc." said another.

Other pharmacists (38 percent) said they need more visits from detailers to handle returns, overstocks, outdated merchandise and to maintain a strict inventory control, while another 20 percent pointed to the detail person as a provider of "information on products being detailed."

One independent had this comment: "We currently service a nursing home and are constantly in need of the latest information about new products and deals."

Other reasons for wanting to see manufactuers' reps were to gather new information on indications and dosage forms of various medications (reported by 4 percent of the pharmacists), to get follow-up information about older drugs already in the marketplace (2 percent of the pharmacists), and to receive free samples/gifts (reported by 2 percent of the pharmacists).

Only a handful (2 percent) of the pharmacists surveyed said they have no need to see a detail person.

One chain pharmacist said that seeing a detail person was a "waste of their time and ours reselling the same products," while another said that "chain stores do not do any direct buying. Detail men are trying to get commission sales. Since I can't order, I feel my time is being wasted."

Another said that he doesn't need a detail person to give him a biased presentation on the drugs his company manufactuers.

"I'm a professional who keeps current with unbiased resources regarding drugs."

And a fairly common complaint was voiced by one independent who suggested that detail people should only visit drug stores at the convenience of the pharmacist.

"I would like them to visit the store when it's convenient

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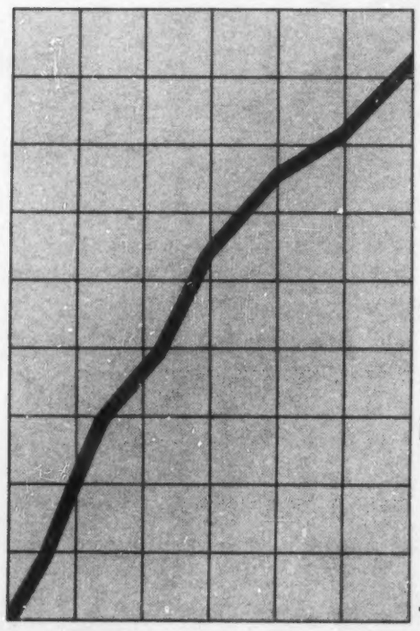

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INSIDE PHARMACY

is key Rxer need

Continued from page IP18

for us to see them. An appointment would be a step in the right direction," the independent said.

Pharmacists said that the three most important pieces of information they needed from the reps were warnings about possible adverse reactions, instructions for advising patients on how to use the product, and warnings on possible drug interactions.

Instead, the survey revealed that the reps are coming into the stores armed with the wrong ammunition. While 88 percent of the pharmacists considered warnings about possible adverse reactions as the single most important piece of information they can get from a detail person, less than half (40 percent) of that same group said they were not receiving that information.

The story is even worse for warnings on possible drug interactions. In that category, 85 percent of the pharmacists said they wanted that information, but only 27 percent said they were receiving it.

While 58 percent of the pharmacists said they wanted a listing of a product's competitive advantages, 68 percent reported receiving that kind of information from the reps. For statistics on how often physicians prescribe a particular product (important to 27 percent of the pharmacists), 30 percent said they are getting that kind of information during the reps' visits.

Companies doing the best job

Topping the list was Lilly/ Dista. More than a third (34 percent) of the pharmacists reported they saw a rep from Lilly/ Dista once every two months or more often. Other companies that did a good job of visiting pharmacists included Upjohn (reported by 25 percent of the pharmacists), Parke Davis (23 percent), Wyeth (20 percent), Searle (20 percent) and Merck Sharpe & Dohme (20 percent).

New product introductions

More than half (52 percent) of the pharmacists surveyed said that having a product readily available was their main reason for taking in new product introductions, consistent with last year's results.

Just under half (49 percent) of the pharmacists thought uniqueness an important factor in stocking a new product introduction.

More than half of the sample (57 percent) said they would *not* accept an automatic shipment of a new product, 40 percent said they would, and 3 percent had no answer.

When asked why he did not accept a new product, one Southern chain pharmacist answered: "I do not want every new drug that comes out. I wait to see for myself if I think it is worth adding."

Another was concerned that the product would "just sit on our shelves" if the product were not detailed to the physicians.

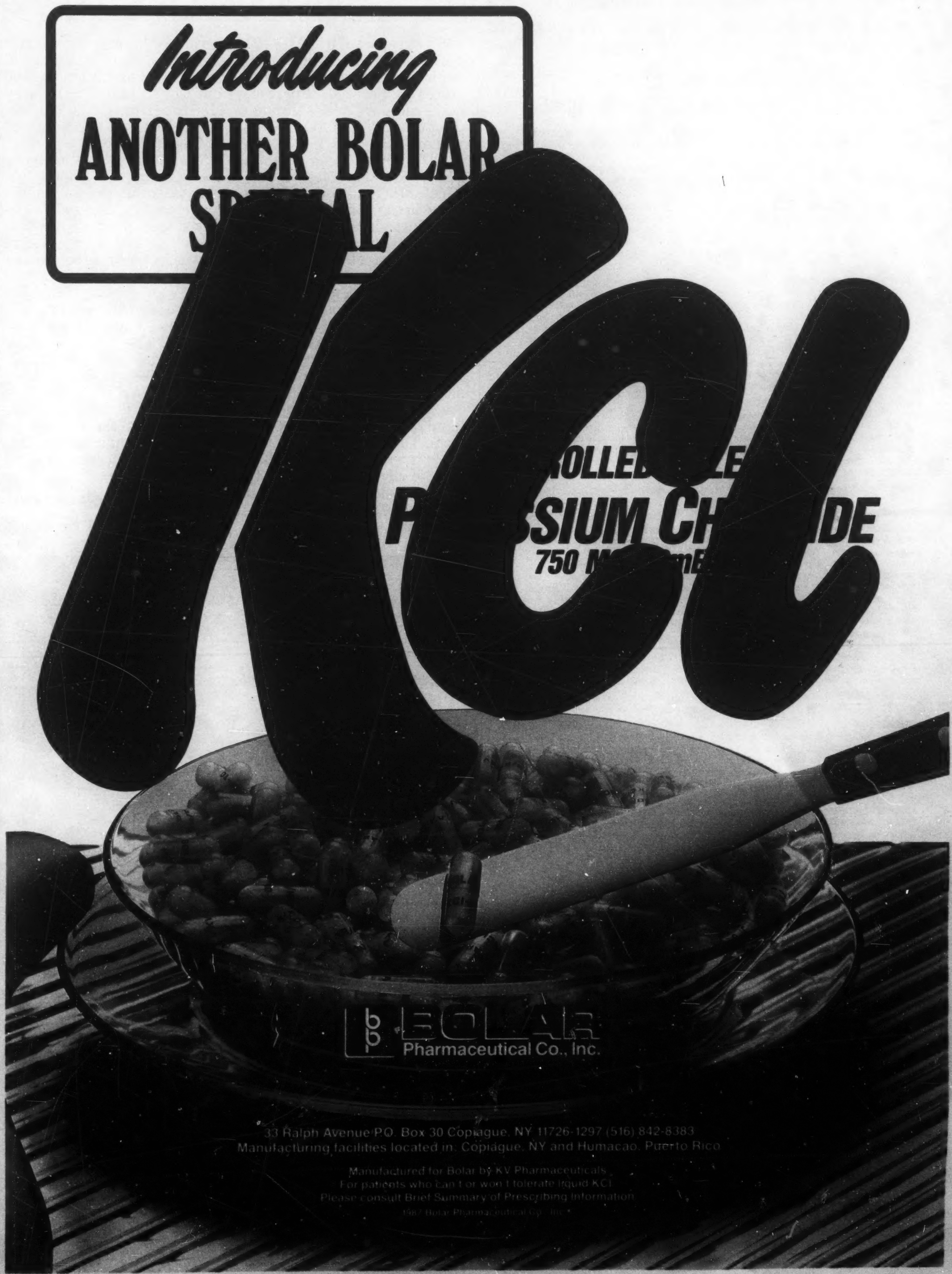
One chain pharmacist said that she would accept automatic shipments sometimes "if the rep is someone I know and trust."

But for one Washington independent, automatic shipments help in "keeping up with new products that the wholesaler won't have for several months."

Usual interval pharmacists see detail person

	1986		1987	
	Chain	Independent	Chain	Independent
Once a month or more	50%	50%	59%	59%
Once every two months	23	31	20	24
Once every 3-6 months	17	14	15	9
Less than once every 6 months	7	3	5	5
Never	2	1	1	1
Don't know/no answer	—	—	1	2

Note: Percentages may not add to 100% or to nets due to rounding
Source: Lebhar-Friedman Research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